

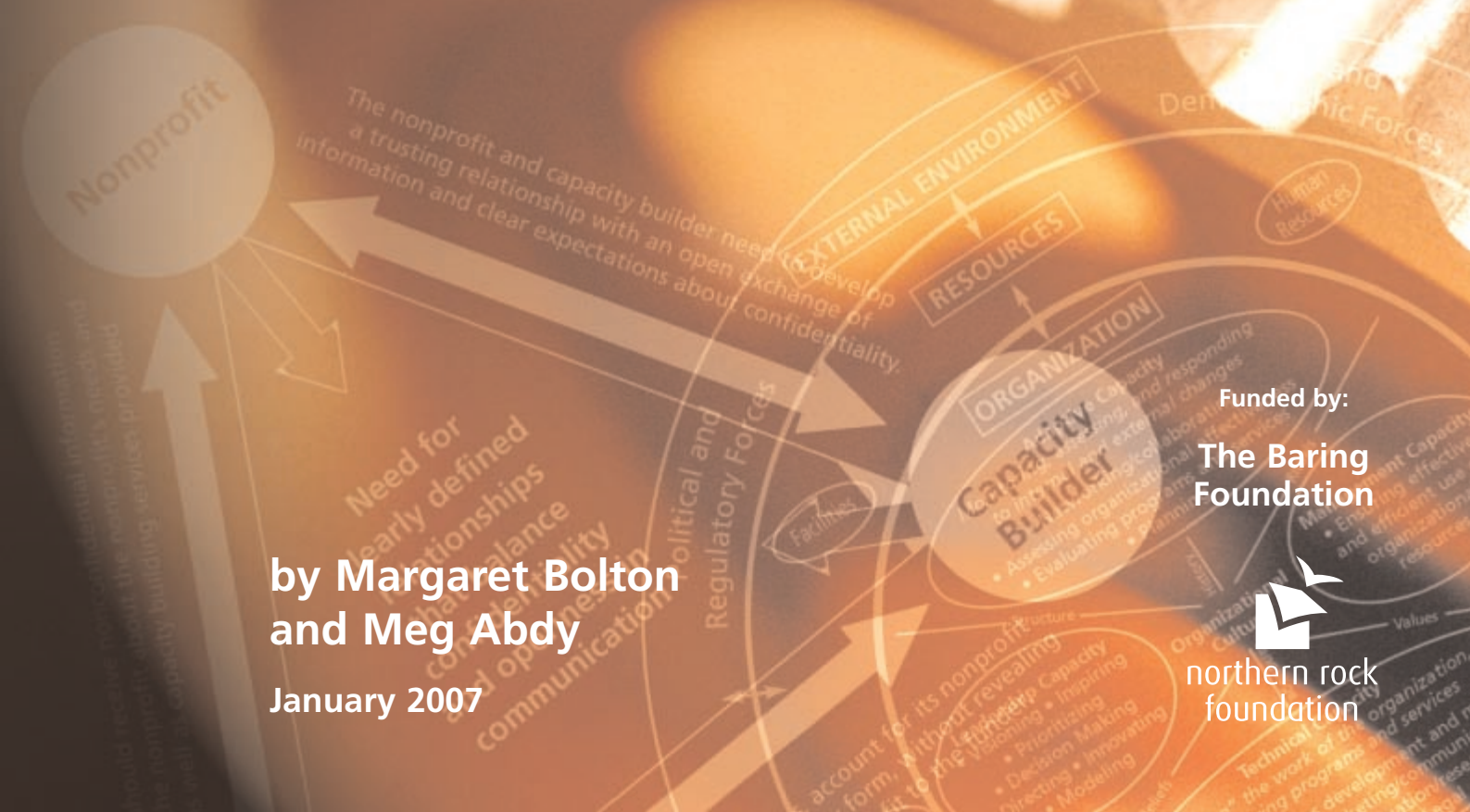
# Foundations for Organisational Development: Practice in the UK and USA

by Margaret Bolton  
and Meg Abdy

January 2007

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**The Baring  
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northern rock  
foundation





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## About the authors

**Margaret Bolton** is an independent consultant who specialises in voluntary sector policy. Previously Director of Policy and Research at the National Council for Voluntary Organisations (NCVO) she was seconded to the Prime Minister's Strategy Unit to work on a major review of the law and regulation of charities and other not-for-profit organisations before going freelance over four years ago. In 2004 she was appointed as Adviser to the Joint Parliamentary Scrutiny Committee on the Charity Bill. She is a board member of Capacitybuilders, a new agency set up in April 2006, to distribute ChangeUp funding.

She has authored a number of reports on voluntary sector issues including *Voluntary Sector Added Value* (NCVO, 2003) *Setting the Record Straight*, a report on charity reporting (The Smart Company, 2003), *Foundations and social investment, making money work harder in order to achieve more* (Esmée Fairbairn, 2005) and *Approaches to financing charitable work: tracking developments* (Charities Aid Foundation, 2006) with John Kingston.

**Meg Abdy** is an independent consultant working with voluntary, public and private sector clients. Meg has instigated a series of consortium research and forecasting projects including *Legacy Foresight* and *Donations Foresight*, working with some forty of the top fundraising charities. She has recently completed the *2006 Legacy Market Audit*, in association with Remember A Charity. In 1997, Meg worked with NCVO to set up the original *Third Sector Foresight* strategic planning programme.

Meg is the co-author of several policy reports, including *Marketing Collaborations in the Voluntary Sector* (Abdy/Barclay, 2000), and *Quality Matters – Funders and Quality in the Voluntary Sector* (Barclay/Abdy, 2001). Working with Heather Mayall, she has recently completed a report for the Performance Hub entitled *Funding Better Performance: Supporting Performance Improvement Through the Funding Relationship*.

**Margaret** and **Meg** have worked jointly on two major projects: *Leadership Development in the Voluntary Sector* (NCVO/Association of Chief Executives of Voluntary Organisations, 2003) and *Improving our performance: a strategy for the voluntary and community sector* (Quality Standards Task Group, 2004) which contributed to the Home's Office's thinking on the ChangeUp programme. In 2004, they also worked for the Kings Fund to assess options for a new small grants programme, which was rooted in an organisational development approach; while in 2005 they explored opportunities for the National Endowment for Science, Technology and the Arts (NESTA) in supporting social innovation.





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## Foreword

This is an exceptionally good moment to consider the issues raised in this important report. The profile of what we must now begin to learn to call the “Third Sector” is higher than it has been for decades. Politicians are constantly stressing the importance of voluntary action; government has reorganised itself to provide a single point of entry to the complexities of the bureaucratic system and has put taxpayers’ money where their own mouth is by investing substantially in infrastructure development. The pressures on voluntary agencies and their funders to show that they are efficient in discharging the tasks they take on and effective in making their voices heard has steadily increased.

And yet ‘organisational development’ is not a glamorous concept. An interest in securing the base and ensuring the continued health of the organisation too often takes second place to the challenges of service delivery in demanding new areas or the adrenaline rush of high profile campaigning.

This is where the present report is so valuable. By drawing on a rich stew of experience, both from the UK and elsewhere, it provides some simple lessons grounded in real life experience for grant giving foundations and their beneficiaries to take on board. And it is mercifully free of the repulsive jargon that clogs too much of the writing on this subject (especially, I am sorry to say, academic accounts of organisational theories emanating from the United States).

These conclusions are crystallised in the recommendations to the British grant making communities that conclude the report. Although, as the authors justly say, some of these will take time and will to achieve, they provide a straightforward agenda for action that should, if implemented, do much to improve the fitness for purpose (if I am allowed one piece of jargon of my own) of organisations that foundations have funded.

The Baring Foundation, of whom I am a trustee, has had considerable experience in this field – the Foundation’s Strengthening the Voluntary Sector programme is cited in the report as an example and my own experience since joining the trustees strongly reinforces the value of the general approach outlined in this report – clarity of purpose, simplicity in setting objectives, drawing on past experience through mutual learning and networking, working to improve the quality of advice – and advisers. We have been very pleased to join forces with the highly respected Northern Rock Foundation in funding this publication. Their own approach to organisational development as a grantmaker is more fully explored in the report itself.

In sum, this is a document that has much to offer both in terms of the experience that it reports and in the conclusions that it draws. I hope that it will be widely read.

**Professor Nicholas Deakin, CBE**



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## Executive summary

*“Many organisations can produce programme success for short periods. All they need are extraordinary employees who are ready to work long hours, tolerate stress and persevere despite organisational barriers. The real trick for organisations is to sustain, improve and build on this strength, producing progressively improving results over time. This is good management”.*

Professor Paul Light, *Nonprofit Quarterly*, 2004<sup>(17)</sup>

This report is being published at a time of growing interest in organisational development. We hope to further stimulate this interest by:

- describing the field;
- providing some examples of programmes from both the UK and USA;
- discussing some of the key questions to consider when setting up a programme;
- flagging up emerging issues, based primarily on US experience;
- recommending actions for the UK grantmaking community.

Many stakeholders have an interest in improving the effectiveness of voluntary and community organisations in the UK. However, we believe that grantmaking foundations have a particularly important role to play, thanks to their clout, contacts, knowledge and independence. We know that in their day-to-day dealings with applicants, grantmaking foundations do many things to boost performance. However, this report focuses on those specific programmes set up to support organisational development.

Our study is based on an extensive literature review, supplemented by a series of expert interviews on both sides of the Atlantic. To illustrate the findings, we have focused on ten case study organisations: five from the UK and five from the US. Some of these examples involve significant investments of money and effort to promote far-reaching organisational and cultural changes. However, setting up an organisational development programme need not be expensive or resource intensive. As Bridge House Trust, The Forbes Funds and the Nonprofit Management Fund have shown, a carefully timed and targeted small grant can have a significant impact. Alternatively – like the London Housing Foundation or the Northern Rock Foundation – funding shared services, aimed at a cluster of organisations can make limited funds go much further.

Section 1 suggests a framework for **analysing organisational development** programmes, illustrated from our case study research. Section 2 poses a series of **questions to consider** when setting up an organisational development programme.

Section 3 asks **where next for organisational development?** Our research suggests that when it comes to supporting organisational development, the debate in the US is more advanced. If this is the case, we are likely to see a number of developments here in the next five years:

- 
- **The knowledge base** – Although there is an extensive body of literature on specific programmes, there are as yet few macro evaluations of what works best, and why. Here in the UK we have the chance to build judiciously on the existing knowledge base, adding valuable insights.
  - **Taking a strategic approach to change** – Many US foundations decide what change they would like to bring about through their funding and then consider what forms of support are most likely to achieve it. This clarity and focus makes it easier to evaluate the success of programmes. There are a growing number of analytical tools to support this approach.
  - **Building adaptive and leadership capacities** – There is increasing awareness of the need to develop leadership competences within voluntary and community organisations, as well as their ability to monitor, assess and respond to internal and external changes.
  - **Working in partnership** – In the US grantmakers with a common interest in a given issue or place are coming together to jointly boost the capacity of the voluntary and community organisations within it. By pooling their expertise, contacts and cash, they can both increase impact and reduce funding risk.
  - **Assuring the quality of third party support** – interviewees on both sides of the Atlantic expressed concern about the quality and accessibility of third party support for organisational development. Assuring the quality of advisors will become an ever more important issue in the future.
  - **Building foundation effectiveness** – In the US, the debate has now turned to the capacity of grantmaking foundations themselves, and how best to ensure they have the necessary skills and processes to support organisational development.

Finally, we make six practical recommendations on how the UK grantmaking community, including organisations like Capacitybuilders, can progress this agenda:

1. **Forge stronger links** with networks outside the UK for example, Grantmakers for Effective Organisations (GEO) – a US-based organisation dedicated to promoting learning and dialogue among its thousand plus members.
2. **Share information** on a more concerted basis, by setting up a system to collate current practice, and later commissioning research to evaluate lessons learned.
3. Further assess the many organisational development **tools and techniques** being used in the US and UK, and raise awareness of how they can best be applied.
4. Conduct a **training needs assessment** of the skills required to support organisational development and **map the availability and relevance of existing training provision**.
5. Pilot a **funders collective** aiming to build the capacity of a given field or region, with monitoring and evaluation built in from the outset.
6. Work with other stakeholders to improve the **quality and accessibility of third party support** for organisational development.

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## Introduction

*The role of organisation builder is not a familiar or comfortable one for many foundations...Wary of becoming life support systems for undercapitalised institutions, foundations have tended to concentrate on refining methods and generating ideas more than on funding and building the productivity, versatility and staying power of the institutions that implement ideas and distribute services.*

From *Finishing the Job* published by the Edna McConnell Clark Foundation

### Why this report?

Today, more than ever before, we need a vigorous third sector. Our society relies on voluntary and community organisations: to provide vital services, to advocate, and to innovate. As a result, both grantmakers and their beneficiaries are faced with the same questions: how can we make the best use of limited resources in the face of ever growing need? And how can we achieve important outcomes in such a fast-moving environment? Only by ensuring that voluntary and community organisations are both effective and efficient can we hope to maintain our distinctive edge.

Traditionally, both voluntary and community organisations and their funders have prioritised investment in direct services over organisational infrastructure. Consequently, many voluntary and community organisations are used to crisis management and to operating on a shoe string. As a result some fail, and many are not as effective or efficient as they might otherwise be. For example, they might have difficulties – not because of lack of talent but lack of resources – with thinking and planning strategically and taking best advantage of the opportunities presented to them to raise funds and negotiate contracts. Support with organisational development at the level of individual organisations, sub sectors and the sector as a whole, enables organisations to respond to these issues. It both reduces the risk of projects and organisations failing, and it helps organisations to reach the outcomes they are seeking to achieve.

**This report is being published at a time of growing interest in organisational development. It aims to support and encourage this interest, by sharing some of the knowledge gained by those UK and US grantmaking foundations with established experience of the field.**

### What is organisational development?

At its heart it's simple: organisational development is about "strengthening organisations so that they can better achieve their mission."

(Thomas Backer, CEO Human Interaction Research Institute).

Organisational development is about being both **effective** (the extent to which objectives are achieved) and **efficient** (a measure of how economically resources are converted to results)<sup>(30)</sup>. According to a Brookings Institution survey of 250 researchers and providers of management assistance in the US<sup>(29)</sup>, two thirds of experts surveyed reported that an organisation could be very effective in achieving its programme goals but not well managed; while three quarters said an organisation could be very well managed but not

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achieve its programme goals! Clearly a balance is required: as Peter Drucker of Harvard Business School puts it, first and foremost it's about *doing the right thing*; but it's also about *doing things right*.

## What makes an effective organisation?

Studies, theories and frameworks defining what makes an effective organisation – whether for profit or nonprofit – abound

US funder organisation Grantmakers for Effective Organisations (GEO), describes an effective organisation as one which “is able to fulfil its mission through a blend of sound management, strong governance, and a persistent rededication to achieving results”<sup>(1)</sup> The Alliance for Nonprofit Management (again, a US organisation) describes organisational effectiveness as “the capacity of an organisation to sustain the people, strategies, learning, infrastructure and resources it needs to continue to achieve its mission”<sup>(2)</sup>

Seasoned American grantmaker Barbara Kibbe (former director of David & Lucile Packard's Organisational Effectiveness and Philanthropy Program)<sup>(3)</sup> summarises the most important organisational factors (or ‘capacities’) which contribute to effectiveness:

1. **Relevant programmes** that are regularly reviewed to ensure that service delivery is consistent with known best practices and related to evolving needs and context.
2. **Policies and processes** that are efficient, cost effective, aligned with mission and goals, and focused on clear, measurable outcomes.
3. **Assets and resources** adequate to accomplish organisational and programmatic objectives, including physical and human resources as well as financial assets.
4. **Stability** through multiple funding streams, a high level of earned income, and/or adequate cash reserves or endowment.
5. **Skilled leaders** who:
  - model **continuous learning** in terms of their personal and professional growth, as well as the management of their organisations;
  - pursue **strategic alliances and partnerships** enabling them to better address big issues and big problems;
  - embrace **accountability** by seeking, reflecting on, and responding to feedback and criticism from constituents, the media, colleagues and competitors.

For information about more studies of organisational effectiveness, see Section 4.

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A wide variety of tools and techniques are being used by grantmakers to help voluntary and community organisations become more effective and efficient. Section 2 of this report outlines some of the most common approaches, with illustrations from our ten case studies.

## Why the emphasis on grantmaking foundations?

Grantmaking foundations are just one stakeholder with an interest in the effectiveness of the third sector. They form part of a complex network of support providers – from academics to accountants, infrastructure organisations to statutory funders – all with an important role to play. However, we believe that grantmaking foundations are particularly well placed to support organisational development for five main reasons:

- **They have the resources to make things happen** – £2.1bn a year funding from UK trusts and foundations is clearly an important force for social and organisational change.
- **They are knowledgeable about the sectors they fund** – Many grantmaking foundations have particular areas of expertise; for example environmental improvement. They know which organisations are undertaking good work/achieving good outcomes in these areas. They are therefore well placed to identify organisations which might be able to significantly increase their impact with the right organisational development support.
- **Their experience of assessing organisations for funding can be applied to organisational development** – Organisational assessments are undertaken by foundations to inform funding recommendations. These assessments can form the basis for a more in-depth consideration of how organisations might best be developed.
- **They have the contacts to be able to leverage a range of sources of advice and support** – Generally speaking, grantmaking foundations have a wide range of contacts, particularly with other funders and sector advisory agencies. These may be tapped to ensure that organisations get the advice and support they need to maintain their services and/or grow and develop.
- **They have the influence to change the operating environment** – Grantmaking foundations have an authority based on their independence and resources – both skills and money – they are able to encourage or instigate action, whether its collaboration between the organisations they fund, or policy changes by central government. This means that they are well placed to influence the operating environment for the benefit of voluntary and community organisations.

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## Methodology

This report focuses on support for organisational development by grantmaking foundations, drawing on current practice in the UK and USA. Our research comprised:

- a literature review, primarily focused on UK and US academic and industry sources;
- case studies examining the practices of ten grantmaking foundations – five based in the UK, and five from the US (see the box below and Appendix A for details);
- desk research into organisational development activities by other UK-based foundations (see Appendix B for short snapshots of each);
- discussions with the project's Steering Group and with the Association of Charitable Foundations' Capacity Building Interest Group.

### The case study organisations

Ten case studies were selected to represent a cross-section of approaches to organisational development. They are:

#### UK-based

Bridge House Trust ([www.bridgehousegrants.org.uk](http://www.bridgehousegrants.org.uk))

The Camelot Foundation ([www.camelotfoundation.org.uk](http://www.camelotfoundation.org.uk))

Impetus Trust ([www.impetus.org.uk](http://www.impetus.org.uk))

The London Housing Foundation ([www.lhf.org.uk](http://www.lhf.org.uk))

The Northern Rock Foundation ([www.nr-foundation.org.uk](http://www.nr-foundation.org.uk))

#### US-based

The Blue Ridge Foundation New York ([www.brfny.org](http://www.brfny.org))

The Edna McConnell Clark Foundation ([www.emcf.org](http://www.emcf.org))

The Forbes Funds ([www.forbesfunds.org](http://www.forbesfunds.org))

Nonprofit Management Fund ([www.nonprofitmanagementfund.org](http://www.nonprofitmanagementfund.org))

The Tides Centre ([www.tidescenter.org](http://www.tidescenter.org))

For snapshot descriptions of each organisation, see Appendix A



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## The scope of this report

While the terms 'organisational development' and 'capacity building' are often used interchangeably, we have opted for the former, to avoid any confusion with broader concepts of community capacity building (see the box below) which – although significant in their own right – are outside our scope.

### Beyond organisational development – community capacity building

A number of grant making foundations both in the UK and the US are concerned with community capacity building. Such foundations support:

- individual activists;
- communities in identifying and developing responses which meet their needs;
- engagement in political processes;
- work undertaken by organisations which have strong roots in their local communities.

In our research we found that for some, the term 'capacity building' is synonymous with community capacity building. This was particularly the case for those working in continental Europe. Clearly there is overlap between such programmes and the work discussed in this report. However, the main focus here is the support that grant making foundations offer to established voluntary and community organisations to develop their organisations.

The report reflects on practice from the perspective of grantmaking foundations as opposed to other funders with an interest or potential interest, including government departments; and other organisations including foundations which do not make grants (for example, the Young Foundation).

It also focuses on programmes whose main purpose is to support organisational or sector development, rather than the more general topic of how foundations encourage improved performance through their grantmaking processes (see below).

### Improving performance through the grantmaking process

Many foundations encourage improved performance through their grant making processes for example, by:

- developing sound assessment processes and providing skilled feedback to applicants about their strengths and weaknesses;
- providing advice to applicants to improve applications and projects;
- encouraging and perhaps providing funding for project evaluation;

- 
- supporting the full costs of projects, thus enabling organisations to invest in infrastructure such as leadership, management systems and IT support;
  - providing core grants which the organisation can use to maintain or develop its infrastructure;
  - providing capital grants which enable organisations to acquire or develop assets reducing outgoings and/or generating income for example from rents;
  - providing seedcorn/proof of concept grants which enable organisations to develop and test ideas which may make them more sustainable in the long run by proving the value of a particular approach.

## Report structure

This report is divided into four main sections:

**Section 1. Organisational development in action** suggests a framework for classifying the many different approaches to organisational development used by grantmaking foundations, and then goes on to describe the different strategies, using illustrations from our case studies.

**Section 2. Setting up an organisational development programme** tracks design stages for a programme, namely:

- defining goals;
- setting programme parameters;
- agreeing operational processes;
- reflecting on results.

**Section 3. Where next for organisational development?** discusses some of the emerging issues, drawing particularly on the experience of US based funders. It then goes on to propose some actions for the UK grantmaking community, to move this important field forward.

**Section 4.** lists further **useful sources** (cross-referenced throughout this report in numbered brackets).

**Appendix A.** provides a snapshot of the **ten case study organisations**.

**Appendix B.** outlines the organisational development activities of ten **other UK grantmaking foundations**.

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# 1. Organisational development in action

*“Many of the commonly understood methods of strengthening program effectiveness and reach – evaluating and redesigning programs, bringing successful pilot efforts to scale, spurring replication, and furthering in-depth partnerships and collaborations – all require capacity building support, just as a growing private company requires working capital.”*

Strengthening Non Profit Performance – A Funders Guide to Capacity Building, Paul Connolly and Carol Lucas (2004).<sup>(4)</sup>

## A suggested framework for analysis

At times, it seems that there are as many different approaches to organisational development as there are funders applying them. Some frameworks used to analyse them are very complex. For example, a recent research project in the US used over one hundred variables to describe the initiatives of just eight funders! In order to make analysis of different programmes possible, we developed a much simpler framework, based on two main criteria:

### 1. The **type of beneficiary**, whether it's:

- individuals working for/with voluntary and community organisations;
- organisations;
- specific fields or clusters of voluntary and community organisations;
- the sector as a whole.

### 2. The **type of support received**, which may be:

- financial support (primarily grants, loans and equity);
- non-financial support.

Taken together, these two criteria yield a matrix of eight types of support, as shown in the table. Please note, this is not a comprehensive list of support – new initiatives are emerging all the time – but it reflects the most common and/or interesting approaches we found in the UK and US today.

According to the strategy and circumstances of the funder, they may choose to supply non-financial support by drawing on the skills of their own team; or they may source it from third party providers such as consultants or pro-bono associates. This issue is discussed in more detail in Section 2.

## Types of organisational development support

Beneficiary →	Individual	Organisation	Field/Region	Overall Sector
Type of support received ↓				
<b>Financial support</b>	<p>Training &amp; education grants</p> <p>Study visit grants</p>	<p>Small grants for specific organisational developments</p> <p>Loans, equity, quasi equity</p> <p>Venture philanthropy</p>	<p>Project or organisational incubation</p>	<p>Grants to infrastructure organisations</p>
<b>Non financial support</b>	<p>Promoting the recruitment of trustees and volunteers</p> <p>Funding leadership development and management training programmes</p>	<p>Access to foundation facilities and expertise</p> <p>Provision of third party advisors</p>	<p>Facilitating networks &amp; action learning sets</p> <p>Convening fora</p> <p>Brokering joint working and mergers</p> <p>Providing back office support</p> <p>Shared training &amp; information services</p> <p>Field building</p>	<p>Boosting the sector knowledge base</p>

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## Supporting individuals

A Brookings Institution survey of 250 researchers and providers of management assistance in the US<sup>(29)</sup> highlighted leadership as the single most important indicator of an effective organisation. Boosting the leadership and management skills of staff, trustees and volunteers can have a significant impact on the effectiveness of the organisation they serve. Some funders avoid supporting individual development, on the grounds of high staff and volunteer turnover. If well-trained managers and board members simply use their newly-found skills to move on, how does it benefit the organisation itself? However, taking a more holistic view, by raising the skills levels of individuals working in voluntary and community organisations, the capacity of the sector overall is boosted.

Foundations adopting this approach use a number of different strategies, for example:

### **Grants to individuals for education and training**

This ranges from one-off grants to attend short training courses, to student scholarships for management development courses; to internships and sabbaticals.

### **Funding study visits**

Study visits provide invaluable information and inspiration to individuals and can lead to new ways of working being adopted.

The **Northern Rock Foundation** encourages applicants to visit other projects across the UK to learn from each other. Train fares and related expenses are paid for through its **Learning and Support Grants**.

Thames Reach Bondway's GROW programme, a programme to train people who have been homeless for jobs at the agency, was a direct result of a challenge posed on a **study trip to New York**, funded by the **London Housing Foundation**. Eleven service users are currently moving through the programme, with a further six starting this year.

### **Promoting the engagement of trustees and volunteers**

Some grantmakers fund initiatives to promote volunteering and trusteeship among the general public, aiming to deepen and broaden levels of involvement in the voluntary sector.

The **BoardStar** Initiative ([www.boardstar.org](http://www.boardstar.org)) was set up by the **Nonprofit Management Fund** eight years ago as a result of research into governance issues in the Milwaukee area. Its mission is "to increase the involvement in and strengthen the capability of the Boards of nonprofit organisations in Southeastern Wisconsin". BoardStar provides training, networking and information services for individuals who are currently trustees or interested in becoming trustees; as well as grants to organisations for board development. Individual trustees are charged \$25-30 a year membership, and pay extra for any additional services received. BoardStar is also testing a free online matching service (Greater Milwaukee On Board) connecting nonprofit organisations with potential new trustees. Since July 2006, BoardStar has been broadcasting weekly podcasts of 6-9 minutes each, focusing on matters of interest to nonprofit trustees. Over 4,000 listeners from around the world tune into the podcasts every week. The Nonprofit Management Fund hopes to spin off BoardStar as a separate entity next year, raising \$150,000 dollars per annum from its partners to kick-start the process.

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## Funding leadership development and management training programmes

At the macro level, some funders underwrite or subsidise education programmes aimed at the voluntary and community sector. In the UK there are a growing number of higher education degrees and short courses aimed at voluntary and community sector managers. However, this is still far less common than in the US, where there are a large number of business schools and other university departments with a special interest in the voluntary and community sector.

Following an analysis of education needs in Pittsburgh's nonprofit sector, the **Forbes Funds** has adopted a '**cohort**' strategy for its professional development grantmaking programme. A 'cohort' is defined as a group of nonprofit managers, trustees and/or volunteers who are facing common challenges or opportunities. The aim is to create a self-sustaining learning system, in which participants act as coaches, mentors and resources for each other. For example, Forbes has provided multi-year support to a partnership between the Urban League of Pittsburgh and Duquesne University to prepare and match young African American professionals to local nonprofit boards. On a less formal level, when there is a crisis, cohort 'SWAT teams' will provide assistance to their peers to shore up failing organisations.

*An example of practice in the UK is the **Clore Duffield Cultural Leadership Programme** (see Appendix B).*

## Supporting organisations

### Small grants for specific organisational developments

Small grants may be provided to enable organisations to respond to identified development needs, such as a governance review, strategic plan or IT upgrade (see the box below for further examples). Sometimes these development needs are identified by the applicant; sometimes the foundation provides a diagnostic to identify needs before a grant is offered for consultancy help and/or to enable the redeployment of staff to work on the issue identified.

**Bridge House Trust** has launched a new small grants programme which is focused on services for older people. Organisations providing such services with an annual turnover of less than £50,000 can apply for up to £20,000. This could be their first grant. In addition they will receive **organisational development support** based on an assessment of their needs. Up to £5,000 will be allocated for each funded organisation for this support. Organisations will be asked to specify their top three organisational development priorities. This analysis will be challenged in the assessment process and by the consultants assigned to them.

**The Northern Rock Foundation** offers discretionary **Learning and Support Grants** to organisations which are not considered ready for project grants or which require additional support during a period of growth or crisis. Sums of up to £2,500 may be offered to buy in training, consultancy or specialist advice. A specific outcome is agreed as part of the grant, and candidates are required to complete a short evaluative report once the work is complete.

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## Grants, loans and quasi equity for the development of income generating schemes

Some grant making foundations focus on specific aspects of organisational development – for example, financial sustainability – and provide grants, loans, equity or quasi equity to enable organisations to develop income-generating activities. It is also believed that the process of managing such finance requires organisations to build their financial management capacity.

Loans may be provided for a range of purposes, most commonly for:

- pre funding of fundraising – an organisation is running a fundraising campaign but has not yet raised the full amount it needs to proceed with the development;
- development capital – enables investment in physical or human capital for example, equipment, a building or a fundraising/development post;
- working capital – to even out cash flow for example, some public funding is received three months in arrears and this creates cash flow problems.

Or loan guarantees are provided, giving mainstream lenders confidence they will be repaid. Some grantmaking foundations have provided quasi equity. For example, in return for providing finance for the development of a new piece of software, once sales reach a certain level, the foundation receives a percentage commission on each sale.

The **Ford Foundation** in the US was one of the first grant making foundations to provide loans alongside grants. When it began this work, in the late 1960s it argued that the main objective of the foundation was to build the capacity of the nonprofit sector and that **loan finance** was a valuable means of achieving that end. It contributed in two ways: by enabling organisations to acquire or develop assets which produced income streams, and because loans require greater financial and management discipline than grants.

The **Northern Rock Foundation** regards loans as a way of 'adding to what we already do'. Its loan scheme launched in 2003 is operated in **collaboration with Charity Bank**. Charity Bank undertakes due diligence checks on applicants for loans, undertakes monitoring and collects repayments. In 2003, the Foundation made two loans of £15,000 each. During 2004, it made four loans with a total value of £968,000. Interest rates are normally 1 or 2 per cent above the Bank of England base rate. The majority of loans are secured. The money for the loan fund comes from the Foundation's reserves.

The Northern Rock Foundation is part of the Charity Bank led consortium delivering **Futurebuilders** – a Treasury supported fund aimed at helping voluntary and community organisations working in government's priority areas provide public services. The fund will focus on alternative forms of financing including loans, equity and quasi equity. Futurebuilders will offer some grants but only as an element of a package containing a loan or in the form of a development grant to organisations not yet investment-ready.

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## Engaged or venture philanthropy

There is increasing interest in engaged philanthropy in both the US and the UK. Engaged philanthropy means that donors contribute not just money but also their skills and experience and access to their networks. Venture philanthropy is sometimes described as highly engaged philanthropy. It applies the principles of the venture capital industry to the world of charity. Foundations such as the Impetus Trust and the Edna McConnell Clark Foundation, using a venture philanthropy approach, core fund a small number of organisations for an extended period, and work alongside staff and trustees/management committee members to build organisational capacity.

**Impetus Trust** provides core funding and management support to enable the organisations it funds achieve a step change in their development. It works intensively with a small number of organisations. It currently has five in its portfolio – although it is aiming for twelve by 2007. The assessment for short listed applicants is a detailed due diligence process which produces a new and improved business plan for the organisation. This identifies organisational development issues that need to be addressed. Generally, supported organisations receive a core grant equivalent to 15 per cent of their total turnover over three – five years (this is tapered over the period ie they receive larger amounts at the beginning). They are also guided through three or four specific organisational development projects each year. Sometimes these projects last only a few days, sometimes they might comprise a days support each month for a full year (for example, because they take the form of a coaching or mentoring relationship). In 1999, the **Edna McConnell Clark Foundation** developed a new grantmaking approach, which involves:

- identifying successful organisations that meet stringent pre-determined criteria;
- consideration of the organisation's programmes, leadership and management, financial strength and internal performance measurement systems, using a rigorous 'due diligence' process;
- generating an agreed business plan to determine the steps the organisation needs to take to achieve its growth;
- investing in a multi-year funding plan, linked to agreements about the goals the organisation must aim for, and which it will be held accountable for. Each organisation receives \$1-6m for up to 5 years;
- performance tracking and evaluation to monitor achievements and develop the organisation's capacity to evaluate work and improve its operations.

Over and above direct financial support, a number of other activities are used to support organisational development, including:

### Access to foundation facilities and expertise

Grant-making foundations are increasingly opening up their own facilities to the organisations they fund. This may include physical facilities such as meeting rooms, library and information services, or virtual facilities such as web space, or links from the foundation's own website.



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Likewise, there is a growing recognition of the power of the foundations 'invisible assets' in adding value. For example, these might include experience in running training, communications or marketing programmes; the specialist knowledge of grants officers; or the accumulated contacts of the organisation.

### **Access to third party experts**

Since the capacity of grantmaking foundations is limited, most will call upon the support of third party experts to help develop funded organisations. This support may be paid for – for example, consultants commissioned to provide technical or organisational support. Or it may be pro-bono, drawing on a pool of volunteer expert advisors.

In some cases, organisational development means raising the capacity or quality of these third party organisations, through subsidies, referrals, training and accreditation. (See Section 3 for a further discussion of this issue).

**Impetus Trust** has recruited a group of **associates** who guide its investees through organisational development projects. Associates are recruited from networks (for example, the Worshipful Company of Management Consultants), Corporate Social Responsibility schemes (for example, the BBC) or individual approaches to Impetus. Once the specification for an organisational development project has been agreed, Impetus recruits the right person to meet project requirements. It has so far had no difficulties finding the right associates. It has 'repeat offender' associates who are helping its charities with performance measurement, providing coaching and mentoring and assisting with human resource development. People from the private sector provide the help pro bono – sometimes experts from the charity world are needed and these are paid.

## Supporting specific fields/regions

Some programmes work with groups of voluntary and community organisations within a given sector or geographic region. Those grantmaking foundations which focus on a specific 'cluster' of organisations generally have a good overview of the organisations, issues and needs in their field; and so are able to provide strategic direction for the sector overall.

### **Project/organisational incubation**

Sometimes, through its own research or contacts, a grantmaking foundation will identify an unmet need or issue it wishes to respond to. In some cases, this involves setting up an entirely new organisation. In others, it involves supporting existing charities helping them work more effectively and/or develop new projects. For example, by bringing a group of organisations working on the same issue together – providing them with funding, accommodation and supporting their organisational development.

The **Blue Ridge Foundation New York** provides **incubator services** to non profit organisations. It provides core funding, space in its premises and support with organisational development. Grants are provided of around \$100,000 each year for four to six years. Organisations stay housed in the Blue Ridge premises for three years or until they have reached seven staff. Based on six years experience of providing

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organisational development services to its grantees it has developed a taxonomy of ten support areas including board development, fundraising and financial management. It searches out best practice in each area. It considers what it can provide internally and then looks to outside experts to fill the gaps. It buys in expertise in IT, financial management, graphic design and large strategic management projects involving data analysis. Everything else is provided by the in-house team of three, or by facilitated learning amongst the organisations housed.

By building on their knowledge and contacts, grantmaking organisations focused on funding in a particular geographical area or particular issue area are ideally placed to develop and support clusters of funded organisations. For example grant making foundations are involved in:

### **Facilitating networks and action learning sets**

According to US research<sup>(10,13)</sup> peer-to-peer learning and support is one of the most effective ways of promoting organisational effectiveness. By giving the organisations the support, time, method and incentive to network on an organised basis, grantmaking foundations help to spread good practice, generate new ideas and foster alliances.

The **London Housing Foundation** has set up a series of inter-organisational **action learning sets**, involving peers addressing common issues. The meetings are said to provide invaluable opportunities for both personal and organisational development. They also identify opportunities for collaboration, whether joint services or sectoral campaigns. For instance, the newly-launched Beyond a Helpline service (see below) was a direct result of the HR Action Learning Set; while the GROW project (training those who have used homelessness services for employment) has now formed its own action learning set for participants.

The **Northern Rock Foundation** invites all the organisations it supports to a biannual '**conference without a conference**' networking event. Some 3-400 people from across the region attend each session, staying on average two to three hours making contact with organisations that will assist their further growth and development.

### **Convening fora**

By convening fora of voluntary and community organisations and leaders from across their field/region, grantmakers can identify emerging issues, which in turn can spark joint initiatives as well as feeding into future grantmaking programmes.

The **Forbes Funds** sponsor **Leadership Roundtables**, providing a forum for community leaders to discuss challenges and opportunities affecting the nonprofit sector in Pittsburgh and nationally. Nonprofit executives interact with leaders from government agencies, foundations and other organisations to explore pressing regional issues. The results of the research projects completed under the Tropman Fund for Nonprofit Research (see below) often provide important background information for these forums.

**Bridge House Trust** has run learning sets on specific aspects of its Fear and Fashion work and for its Jubilee Grants Scheme on social cohesion.

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### **Brokering joint working/mergers**

Thanks to their wide range of contacts and their expertise and authority, foundations are well placed to facilitate collaborative working, whether between voluntary and community organisations or between such organisations and public sector agencies. Some foundations also encourage collaboration by providing financial support and advice to organisations investigating or pursuing joint working or even mergers.

### **Providing back office support**

There is a growing trend towards supporting – or even providing – shared back office services. Such services range from finance and payroll to IT, HR and office space.

The **Tides Center** exists to help emerging organisations achieve progressive social change. It enables them to focus on their programmes by providing back office services, including financial, HR, risk and liability, compliance and grants management. They also provide capacity-building support, for instance helping build advisory boards, develop appropriate HR policies, and create budgets. Each Tides Center organisation is assigned a coordinator who stays in touch, helps them navigate Tides Center services, and connects them to external support and resources. There are eight coordinators supporting nearly 200 organisations nationwide. Tides Center provides its services remotely or its staff travel to provide face-to-face support. Most organisations apply to join Tides during their start up phase, although some have stayed with it for as many as ten years.

**Beyond a Helpline** is a HR support service for small agencies who haven't got dedicated HR resources of their own. It is a two year pilot scheme developed by the **London Housing Foundation** in response to a request from a group of smaller agencies for help in this area. Following a competitive tendering process, the service is being provided by Broadway, a large homelessness charity. Initially, eleven smaller charities are participating in the scheme. The service includes an audit of current practices and policies, together with an action plan and quarterly HR 'surgery' sessions; a set of core policies and plans; a six-day modular management training programme; access to an expert telephone and email helpline; and a dedicated account manager. The Foundation will pay half the costs of the scheme for the first two years, with the expectation that each agency will build in a budget line for HR support in the longer term. The pilot will be reviewed regularly by a Steering Group, and a formal programme evaluation is being run contemporaneously.

### **Sourcing shared training and information services**

Many smaller charities consider it hard to justify the cost or time involved in activities such as training or market research. Some grantmaking foundations seek to address this by supporting relevant, good quality services, open to all the voluntary and community organisations within their remit. They also underwrite services, enabling free or reduced rate access.

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The **Northern Rock Foundation** aims to make a ‘better, stronger voluntary sector’ by bringing shared training and information services to the North East and Cumbria. There are two strands to the work:

- The **Northern Rock Foundation Training Institute** has funded a series of specially-developed management training courses for small and medium-sized voluntary and community organisations in the North East, run by the Directory for Social Change and other national training providers.
- With funding from the Northern Rock Foundation, **Project North East** initially developed an interactive website of training information for the North East ([www.voluntaryskills.com](http://www.voluntaryskills.com)). It then went on to instigate and roll out a series of training programmes focusing on different aspects of voluntary sector management, working through a network of specialist training providers. Project North East has used the Northern Rock Foundation grant to lever in funds from a wide range of other funders, both regional and national.

In the late 1990s, the **Nonprofit Management Fund** noticed a significant increase in applications for technology upgrades. It also recognised that demand for unbiased advice and support in assessing technology solutions was not being met. A survey of current skills and systems in the local nonprofit sector was carried out. Based on these findings, a **Technology Initiative and Technology Fund** were set up, working in partnership with the Student Technology Services at the University of Wisconsin Milwaukee. A technology assessment tool was developed, followed by a series of other toolkits. Seven years on, [www.entech-online.org](http://www.entech-online.org) provides a wide range of online advice and support for nonprofit staff. The programme has been spun off as a self-funding initiative.

### Field building

Some grantmaking foundations are leveraging their funds and their expertise and influence to change the policy landscape in their chosen field, while at the same time aiming to boost the effectiveness of individual organisations within it.

**The Camelot Foundation** decided that it wanted to invest in an issue where it could make a real difference in policy and practice with the resources available (around £1m). Young people and self harm clearly fitted this description – there was a problem and no one was taking leadership. A web search indicated there were about forty voluntary organisations and academic institutions in the UK with an interest in the area. Based on early consultation work with this group, the **National Inquiry into Self Harm** was launched. This inquiry brought together organisations from the voluntary, public and private sectors and individuals with respected expertise in the area of young people and self harm. The Foundation found that the voluntary organisations involved in this area were predominantly small or medium sized. They were often overstretched and also reported feeling isolated. It decided to invest in their organisational development to enable them to progress work on the issue. As part of its follow up work the Foundation intends to commission a virtual centre of excellence in self harm support to ensure young people, their families and front line professionals know where to turn for sound information and advice. £500,000 is being dedicated to this purpose. One or more voluntary organisations will be invited to run the centre.

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The **London Housing Foundation's Outcomes Programme** has been supporting outcomes work in the London homelessness sector since 2001, when it first funded tailored training courses on outcomes measurement. Over 200 managers attended the courses; and 15 organisations were given up to 20 days consultancy to tackle the organisational and information management issues arising from the training. In addition, two conferences were held, to promote information sharing and identify common issues. One result is that the Foundation is working with three local authorities and six service providers to develop a model outcomes framework for the homelessness sector. This is informing discussions with central government about national standards. This means that practical experience of implementation is helping to ensure that centrally generated reporting requirements are appropriate to local implementation.

## Supporting the sector overall

Grantmakers also support the development of the voluntary and community sector at the national, regional and local level.

### Grants to infrastructure organisations

Grantmakers have long been an important ally for local and national infrastructure organisations. By funding organisations such as local Councils for Voluntary Services (CVSs) and specialist sub-sectoral organisations, they ensure that individual voluntary and community organisations have access to advice, information and support on topics such as fundraising, financial management, governance and quality standards.

**The Bridge House Trust** provides grants to infrastructure organisations in London through its **Strengthening the Voluntary and Community Sector programme**. Since 1995, these grants have valued £20.5 million. There is an open applications process. Applications are prioritised if they can demonstrate that they are working collaboratively, if they can provide evidence of user involvement, if they value volunteers and know how to support them and if they are committed to diversity. One of the priorities for the Programme is advice and support services around the issue of sustainability. The success rate for applications from CVS is estimated to be around 90 per cent.

### Boosting the sector knowledge base

Grantmakers also commission research and information resources of benefit to the sector overall, often working with academic institutions and expert individuals to develop the sector's knowledge base.

In 2001, the **Forbes Funds** embarked on a strategy to enhance the management capacity of the regional voluntary sector through three complementary strands: grantmaking, building sector leadership (see above) and applied research. The **Tropman Fund for Nonprofit Research** supports applied research on strategic issues that are likely to impact on nonprofit management and governance. In addition to in-depth research findings, the Fund produces the Tropman Reports – short, accessible research abstracts for broader distribution amongst busy managers and trustees.



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## 2. Setting up an organisational development programme

*“Organisational development is a time-consuming and complex process. Avoid creating inflated expectations for guaranteed, positive results over a short period. To succeed, you must be flexible, patient, and willing to take risks”.*

Paul Connolly and Carol Lukas, *Strengthening Nonprofit Performance: A Funders Guide to Capacity Building*<sup>(4)</sup>

This section outlines the key questions to consider when setting up an organisational development programme. It also provides examples of the approaches taken by our case study grantmakers in tackling these issues.

### 1. Defining programme goals

The first question for any grantmaking foundation considering supporting organisational development is: why do we want to do this? An organisational development approach is not right for all grantmaking foundations – it depends on the mission, culture and circumstances of each. Nor is it something to be embarked on lightly. It is important to consider:

- How will working in this way contribute to our overarching organisational mission and objectives?
- What long term outcomes and impacts is it likely to help us achieve?
- How will it link in with our other grantmaking programmes?
- And what are the potential risks and the opportunity costs for us as an organisation of working in this way?

These ‘big-picture’ questions are best debated by both trustees and senior managers.

As well as a clear understanding of how an organisational development approach will help you to achieve your overall objectives, it is important to consider a series of ‘philosophical’ questions relating to what sort of interventions you might make, and the outcomes and impact of any programme you might develop. For example:

- What makes for an effective organisation? And how will we know when we find one?
- How do organisations change over time? And at what point does intervention have the biggest impact?
- What types of intervention can help improve organisational effectiveness? And how can we use our particular resources to leverage the greatest impact?

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## Understanding organisational growth

In 2004, the **Edna McConnell Clark Foundation** commissioned the Bridgespan Group to study growth patterns in 20 US youth-serving organisations. The study considered: the prevalence of growth; the factors that were critical in shaping how organisations grew and the major consequences of growth. It also explored the '**chutes and ladders**' of growth – ie those factors which helped or hindered these organisations as they grew. Eleven key observations were published in a 'white paper':

1. Growth was more often a response to opportunity than the result of strategic choice
2. For organisations with multiple sites, finding the right balance between local autonomy and central control was a recurring challenge
3. The financial condition of these organisations, even the best-known and fastest-growing, was remarkably fragile
4. Economies of scale and experience were evident for some of the organisations in the study, but not for others
5. Bringing in a CEO was often essential, yet just as often proved challenging for the organisation's leader as well as its staff
6. The complexity caused by growth gave rise to the need for formal systems and staff with more specialised skills. These, in turn, tended to create internal stress as well as a more professional organisation
7. Growth almost always required redefining the role of the board and its members
8. Foundation funds could propel growth, but they were unlikely to sustain it
9. These organisations believe programme codification was essential in enabling them to expand without sacrificing quality
10. The later an organisation made performance measurement part of its culture, the more disruptive the process was
11. Funds for building infrastructure consistently lagged the need for them.  
(for more information visit [www.emcf.org](http://www.emcf.org) or [www.bridgespangroup.org](http://www.bridgespangroup.org))

**Impetus Trust** aims to help medium sized charities (£250,000 to £500,000 turnover) make a **step change** in their development ie at a point where they: could grow significantly; are under performing and seeking to turn around their performance or considering a merger or alliance. The step change needed could be rapid revenue growth, it could be improving profile or another factor crucial to development. Medium sized charities experience enormous growth pains – often they have a good CEO and trustees but no senior management team to speak of. Support for them can potentially have an enormous impact. The founders of Impetus decided to focus on medium sized charities because "a very large proportion of small charities should stay doing exactly what they are doing in the way they are currently doing it – they are massively cost effective and they have a local niche".



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## 2. Setting the parameters

Grantmaking foundations have a variety of different (and equally valid) motivations for supporting organisational development. The rationale for choosing to invest in organisational development will affect the parameters of the programme; including the scale and scope of the investment, and the partners you choose to work with:

### **The scale of investment?**

Some of the programmes showcased in this report involve a significant investment of both money and time aimed at achieving considerable cultural change in organisations. However, as Bridge House Trust, The Forbes Funds and the Nonprofit Management Fund have shown, a carefully timed and targeted small grant can have a significant impact. Alternatively – like the London Housing Foundation or the Northern Rock Foundation – funding shared services, aimed at a cluster of organisations can make limited funds go much further.

### **Tightly defined or broad?**

Some funders develop tightly defined programmes. They are very precise about who they will fund, to do what. On the other hand, some funders want to see what sort of organisations and what issues/good ideas come to the surface through funding programmes with broader eligibility criteria. Both approaches are equally legitimate.

### **Diversity or scale of impact?**

Venture philanthropists want to support winners – they seek out organisations which have the potential to achieve significant impact. This can be contrasted with an approach based on supporting all the organisations in a particular sub sector and encouraging collaboration and mutual support. This approach favours diversity.

### **Support for underperforming organisations?**

In contrast to the venture philanthropy approach, sometimes funders will choose to support organisations which are perceived as weak, because they fill significant market gaps, or have strong grassroots support. Sometimes they need help surviving, but they are not at a stage where organisational development per se would be helpful or appropriate.

### **Working alone, or in partnership?**

A collaborative approach to supporting organisational development is attractive for a number of reasons. First, groups of funders collectively have a far wider range of contacts, knowledge and skills to draw upon. Second, by pooling funds it is possible to make a bigger, speedier impact on a common goal. Thirdly, the organisations involved develop skills and challenge their approaches through the process. For these reasons, we believe that collaborations will become increasingly common in the UK over the next five years.

## Working in collaboration

In 1994, **The Nonprofit Management Fund** was created as a three year pilot project by three large Milwaukee-based funders: the Greater Milwaukee Foundation, Faye McBeath Foundation and the Helen Bader Foundation. Each of the founding sponsors pledged \$50k a year for management and governance grants to eligible nonprofit organisations in Milwaukee County. Twelve years on, there are 15 partners (including corporates and United Ways, as well as grantmaking foundations) contributing over \$700,000 annually to strengthen nonprofit management and governance. In addition to making grants, allocations are also made for sector-wide initiatives. Participating funders now feel comfortable referring grantees to the management fund, if they feel the organisation needs strengthening. The fund is believed to have improved the relationships funded organisations have with the participating funders' grants teams – they are no longer afraid to admit problems for fear of grants being withheld. The quality of grant applications to the parent funders has improved. Participating funders are also said to have become more knowledgeable about organisational effectiveness and more rigorous in their assessment processes. They are also more willing to share ideas.

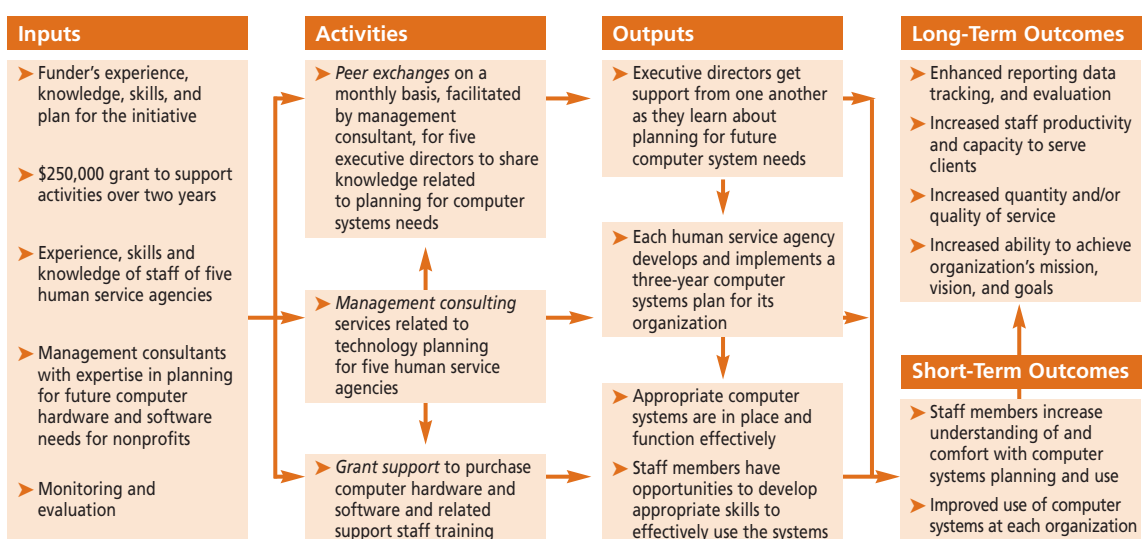
**The Forbes Funds** is a supporting organisation of the Pittsburgh Foundation. A small endowment covers core operating costs. However, the Funds relies on its philanthropic partners to donate funds for its annual programme budget; with six regional foundations contributing repeatedly to capacity building projects of mutual interest.

### 3. Agreeing operational processes

Having decided that an organisational development approach is appropriate, and agreed the parameters of the programme, consideration can be given to inputs, activities, outputs and outcomes.

'Logic models' are increasingly being used to describe the expected process of a given organisational development initiative. If you like, they are pictorial representations of a theory of change. A sample logic model is shown below.

**Chart 1. Sample Logic Model**



*This logic model shows the short – and long-term outcomes for activities undertaken to increase the capacity of five human service organizations to plan for and make effective use of computer systems*

Reprinted with permission from Strengthening Nonprofit Performance: A Funders Guide to Capacity Building by Paul Connolly and Carol Lukas, Wilder Publishing Center, 2002

Logic models can help to clarify the underlying (often implicit) assumptions being made about the programme. They can also be used to determine the targets set, and the ways in which you monitor and evaluate progress.

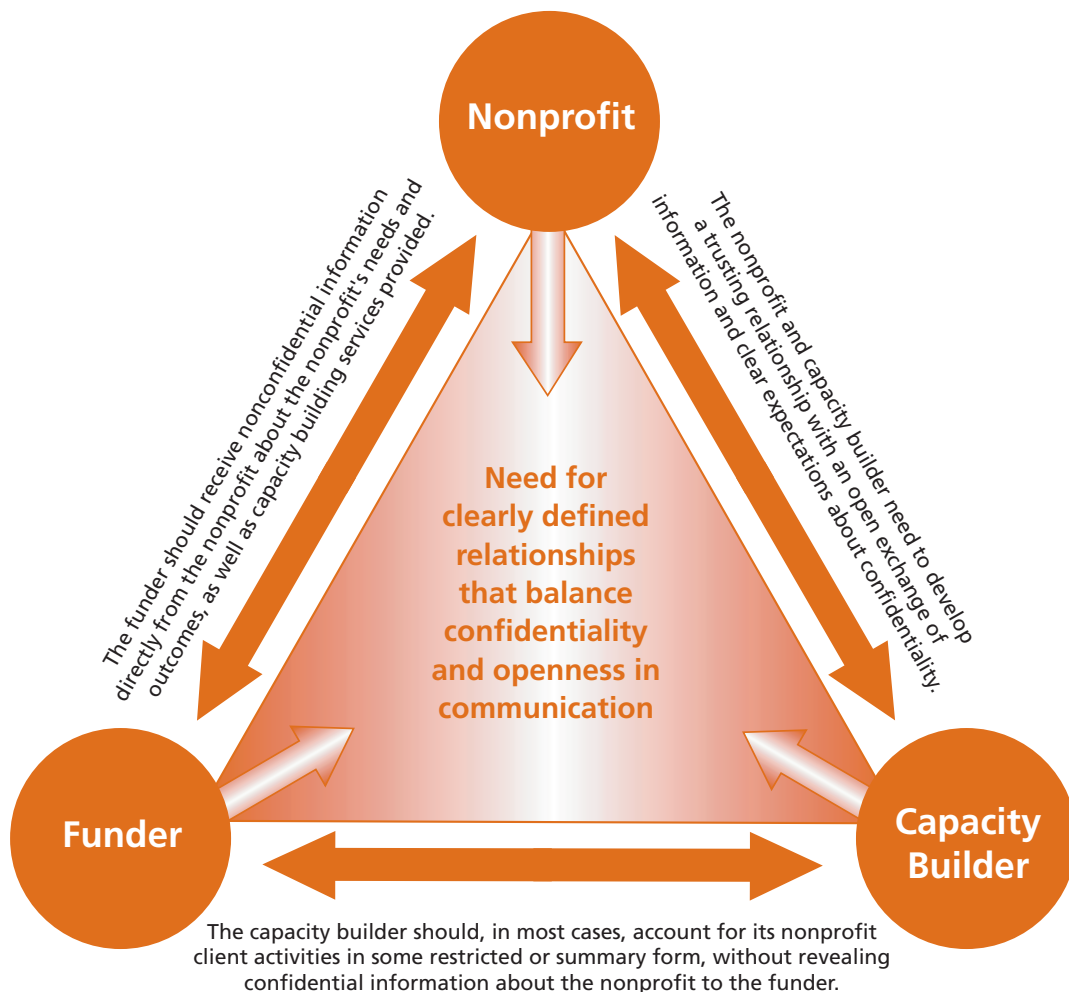
The next thing to consider is *how* to manage the process. There are a number of managerial issues to agree at this stage, including:

### The funder/fundee relationship

Funders wield enormous power in the communities they support. Even with the best of intentions, truly equal partnerships between funder and funded are rare. When a funder engages in organisational development, that power imbalance can widen. Connolly and Lukas (4) stress the importance of “doing no harm” in the funding relationship, “supporting the capacity building of nonprofits in ways that strengthen and restore them rather than emasculate them”. Mutual trust is vital. They suggest that rather than imposing organisational changes, funders consider stating the outcomes they require, and leaving it up to the fundees to achieve them.

It is also essential to develop clear expectations regarding confidentiality and communications from the start. This is particularly important where third parties are involved – a delicate balance of respecting boundaries while encouraging openness.

**Chart 2. A Delicate Balance: the Relationship of Funder, Capacity Builder, and Nonprofit**



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## The value – and costs – of diagnosis

Before making any organisational development intervention, a careful assessment is needed of the current state of the organisation's leadership and operations, as well as their capacity to achieve their goals. Diagnostic frameworks are being used in two ways: to shortlist potential beneficiaries or/and to identify which areas to focus support.

Organisations are not always good at identifying their own needs – they may present one problem, but on closer inspection a deeper one emerges. A well-managed assessment process has value to the funded organisation in its own right, helping it to identify areas for future improvement. A diagnostic approach also allows support to be tailored to the needs of individual voluntary and community organisations and encourages buy-in. On the other hand, an overly formal diagnostic framework may put off some smaller and/or less well established organisations; where the perceived costs of providing the information required outweighs the potential benefits.

### Diagnosis to identify areas for support

Since 1998, **The Nonprofit Management Fund** has offered '**diagnostic clinics**' in lieu of a grant – these involve a trained consultant working with the board and staff over a 60-90 day period. Each diagnostic clinic includes meetings with key personnel, attendance at board and committee meetings, facilitation of a staff meeting, review of corporate documents and board and staff surveys. The results are produced as a written report and presentation, with detailed recommendations and a series of tools to assist the team in implementation. So far over one hundred clinics have been completed in the Milwaukee area.

Funders such as Edna McConnell Clark Foundation and Impetus Trust have instigated rigorous 'due diligence' processes to select which organisations to support. Such processes can be very costly for the grantmaker involved, since the final fallout rate is – by necessity – high. With management costs ever rising, finding ways to streamline due diligence without losing the essential rigour, will become increasingly important.

### Diagnosis to short-list candidates

The **Edna McConnell Clark Foundation** supports a small number of high-performing youth development organisations, selected according to six criteria: compelling product/service, leadership and management, financial health, operational viability, outcomes measurement and evaluation and compatibility. The Foundation uses a **six step process** to identify and support such organisations:

1. Sourcing and reconnaissance – scanning communities in consultation with youth development experts, foundation peers and local groups
2. Due diligence – a three-stage process, comprising the initial contact with the Executive Director, a thorough document review, and site visits including a wide range of stakeholder interviews
3. Business planning – working with consultants The Bridgespan Group to develop and agree a detailed three to five year plan

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4. Investment structuring – the final plan is used to structure a multi-year grant, based on annual milestones, to which the fundee is held accountable
  5. Performance tracking – the Foundation monitors progress, provides consultation and helps address issues and opportunities which arise
  6. Non-financial assistance – intended to support grantees' efforts in areas such as board and leadership development.

**Impetus Trust** has received 250 applications to date. Around 75 per cent (or 200) were rejected at the first paper assessment stage. Of the remaining 50, 25 were rejected after one or two assessment meetings. The remaining 25 were assessed using an in depth due diligence process. Of these, eight were recommended for investment. Investment has been agreed for five of these and three are proposed co-investments which are still working their way through the system. Assessment costs relative to the number of organisations funded are high.

### Managing third party advisors

Many grantmakers will refer the organisations they support to third party advisors (whether paid consultants or pro bono mentors) for technical or organisational assistance. Controlling the outputs of those advisors, especially at arms length, can be tricky. Systems need to be in place to ensure that the work undertaken is of high quality. Care must also be taken to ensure the consultants are not mis-selling the need for additional support. This may mean setting up accreditation schemes, tailored training programmes, and/or formal systems to monitor the output of consultants. Many funders, both here and in the US, agree that there is a shortage of reliable, experienced, reasonably-priced consultants working in the voluntary and community sector. Assuring the quality and value of consultants will be a vital future issue for the sector.

### Encouraging good advisors

Recognising the lack of good quality consultants with nonprofit experience in Wisconsin, the **Nonprofit Management Fund** set up its own consultants' apprenticeship programme called the **Diagnostic Clinic Consultant Institute**. So far, eight consultants have been trained to carry out diagnostic clinics on behalf of the Fund. (This was the second such professional development institute – the first, launched in 2001, trained consultants to work with boards). The Fund is currently planning another consultant training initiative, which will aim to boost support for either strategic planning or governance, by training another 8-10 consultants. The Fund is also encouraging the local university to set up a certificate in nonprofit consulting.

Likewise, in a relatively small regional market, the **Forbes Funds** aim to encourage a strong network of nonprofit advisors. It hosts the **Nonprofit Assistance Network**, which meets two to three times a year to share information and participate in continuous professional development. It also hosts a marketplace, which showcases 60-70 advisors. The Fund believes that by competing face to face with their peers, consultants are forced to raise the standard of what they deliver.

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Moreover, the best approach is not always to appoint a consultant, but to build the capacity of staff and trustees to take on organisational development projects themselves, or fund them to free up time for support and learning from peers.

### **Providing non-financial support**

As demonstrated in Section 1, many grantmakers have come to recognise the value of their non-financial assets to the organisations they support. They may offer fundees the use of tangible assets, such as meeting rooms, specialist equipment and back office services. Even more valuable are the foundation's invisible assets, such as knowledge, reputation and skills. Access to such assets can be extremely beneficial to fundees. But there are often hidden costs to the funder. Managing access to these assets in a controlled way, to ensure the organisation's own capacity is not depleted, will be a growing issue. It helps to take an audit of your organisational assets before embarking on an organisational development programme, thinking broadly about what you can contribute, and the management costs involved.

### **Working with trustees and reference groups**

Supporting organisational development can be a lonely business – it can also be a huge responsibility. To share the burden, and to ensure fresh perspectives, many of the organisations we studied draw upon the knowledge and experience of an organisational development sounding board. The creation of a sounding board can bring fresh perspectives to the grantmaking process. However, care must be taken not to create an inner circle of special advisors, who are suspected by others of having the inside track on your strategies and decisions. Also, by setting up a non-accountable body, it's important not to alienate trustees or indeed senior managers.

### **Working with reference groups**

Kevin Ireland, Executive Director of the **London Housing Foundation**, works with an eight-strong **reference group**, made up of homelessness agency leaders. The group has been selected to cover a range of different sizes and types of agency, as well as their practical perspective on the sector, and their ability to retain a strategic view. One trustee is also a reference group member. This group meets frequently, on an ad hoc basis – at least once a quarter. Apart from influencing the performance of the sector, members benefit from sharing ideas with each other. In return, Kevin gets an extended team of trusted colleagues, who provide both support and constructive criticism as necessary.

### **Planning your exit**

Most funders we spoke to agreed that organisational development is a long game – not something that can be achieved instantly. At the same time, there has to be an exit point. It is important to be clear from the start of the process, about the scale, scope and duration of support a funded organisation can expect to receive. Planning your exit also involves connecting the organisation to other funders, and helping to create the evidence that will convince them that the organisation is worth supporting.

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## 4. Reflecting on the results

### Monitoring and evaluation

While everyone agrees that outcome and impact measurement is important, both funders and funded organisations are struggling to implement it in a meaningful and cost effective way.

Different approaches are taken to assessing the effectiveness of schemes. Those emphasising sustainability tend to focus on whether the organisation has secured or has made progress towards securing trading income. Other schemes emphasising increasing impact in a particular policy area tend to measure the organisation's growth and the extent to which it is delivering a greater volume of service, or better outcomes.

### Important considerations in evaluation

A recent US project<sup>(22)</sup> to pull together lessons from existing evaluation reports found that evaluations of organisational development programmes work best when they are:

- **timely and planned** – designed in from the outset of the programme;
- **stakeholder-based** – those who are intended to benefit from the intervention should be involved in shaping the desired outcomes, measurement indicators and tools;
- **assessment-based** – initial baseline assessments are essential, from which change can be measured;
- **contextualised** – addressing the prevailing socio-economic and political context as well as internal management issues;
- **customised** – based on the stakeholder-defined changes that are to be measured, and the broader context;
- **learning based** – focused on continuous organisational learning, in the quest for ever more effectiveness;
- **peer learning**-based evaluation techniques are said to show great promise, building capacity, as well as getting the evaluation done.

### Sharing ideas and experiences

Most interviewees agreed that there was a need to develop better means of sharing knowledge and learning about organisational development, both between the organisations receiving support and with other organisations running organisational development schemes.

In the US, there is a growing emphasis on knowledge management systems, to capture, analyse and disseminate information. This means celebrating success stories – what works and why? Equally it means admitting 'failures', to avoid others making the same mistakes again.

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### **Building your own organisational capacity**

Last but not least, funders must be willing to 'walk the talk', holding your own organisation to the same standard you would expect of others. Running an organisational development programme requires a different set of skills, processes and policies to mainstream grants programmes.

For instance, the Edna McConnell Clark Foundation, says that their best 'portfolio managers' are experts in management and operations, not sectoral issues. According to Julia Unwin<sup>(18)</sup> grantmakers need to invest in high level assessment skills, combining the ability to diagnose organisational problems with the capacity to see positive developments and directions.

The importance of developing grantmakers' own effectiveness has become a hot topic in the US in recent years. According to its latest members' survey<sup>(12)</sup>, three quarters of GEO members regularly examine their own organisational effectiveness, and two thirds of them have made concrete changes in their policies and processes over the past year.



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### 3. Where next for organisational development?

*“More infrastructure is needed to support capacity building in philanthropy – to educate funders, non profits and communities; to replicate proven strategies; to promote sharing of good practices; and to enhance the relationship of capacity building to the overall goals of philanthropy.”*

Strengthening Nonprofits, Foundation Initiatives for Nonprofit Organisations  
Thomas E. Backer in Building Capacity in Nonprofit Organisations, the Urban Institute, April 2001<sup>(13)</sup>

Our research into support for organisational development by grantmaking foundations has uncovered a wealth of practical experience and a growing body of theory to underpin it. Much of this information comes from the US, where the organisational development ‘industry’ is far more advanced. Our research into the UK and continental European voluntary sectors uncovered surprisingly few examples of organisational development programmes, and little academic analysis of the topic. That is not to say that organisational development does not exist here in Europe. Indeed, we have found some inspiring examples to draw upon. But while in the US, the debate is well advanced, on this side of the Atlantic it has only just begun.

#### A history of organisational development in the US

In the US, concerted support for organisational development (or ‘capacity building’ as they often term it) stretches back to at least the 1960s, when the Ford Foundation adopted it as a central tenet of their mission. In the early 1990’s, some high profile foundations, in particular the David & Lucile Packard Foundation and the Edna McConnell Clark Foundation, began to invest heavily in the area. Since then interest – and action – has snowballed, such that there are now over 350 ‘capacity building’ initiatives operating across the country. According to the latest Foundation Center Statistics<sup>(16)</sup> general/operating grants (including support for management development) now account for 20 per cent of all US grant-giving; while capital grants account for a further 18 per cent. And, a number of major sector initiatives have sprung up to coordinate activity in the field – see the box below for details.

Given the number of foundations with an interest in organisational development, and the scale of activity, it is not surprising that a range of reports and studies have been produced – some of the most useful have been listed in Section 4. A number of evaluations of individual programmes have also been published, although little work has yet been done to compare and contrast the findings across schemes.

The sheer number of foundations and other funders engaged in organisational development in the US – some of them investing significant amounts – has a number of implications for the field:

- a wide range of different approaches are being tried and tested – some of them innovative;

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- there is increased academic interest in the topic, as well as a growing number of consultants claiming specialist expertise;
  - practitioners and theorists are sharing ideas and experiences;
  - a common language is being agreed and both analytical frameworks and practical toolkits are being devised;
  - attention is being paid to the thorny issue of evaluation;
  - there are some preliminary indications of which interventions are likely to work best.

### US organisations and initiatives devoted to developing and sharing knowledge on organisational development

- Grantmakers for Effective Organisations (GEO) is an organisation dedicated to promoting learning and dialogue among funders committed to building strong and effective nonprofit organisations. It now has over 1000 members representing more than 500 grantmaking organisations (see [www.geo-funders.org](http://www.geo-funders.org)). GEO's annual conference is widely attended, and it conducts regular surveys of its members.
- In 2002, GEO incorporated the operations of Grantmakers for Effective Evaluation (GEN), a group which promotes the development and growth of rigorous evaluation in grantmaking.
- The Alliance for Nonprofit Management is an umbrella organisation and learning community representing the different stakeholders in the nonprofit organisational development field (see [www.allianceonline.org](http://www.allianceonline.org)).
- The Philanthropic Capacity Building Resource database (see [www.humaninteract.org/reports/pcbrdatabase.asp](http://www.humaninteract.org/reports/pcbrdatabase.asp)) – lists over 350 US organisational development initiatives from foundations.

### The organisational development field in the UK

While the UK grantmaking sector is clearly much smaller than in the US, it is driven by many of the same trends (see the box below). However, there is less foundation activity in organisational development overall; and little activity on any significant scale. Some desk research conducted for the Kings Fund in 2003 by the authors of this report found fifteen UK foundations which ran organisational development programmes (see Appendix B for details).

In the late 1960s, from the first year of its grant making, CAF supported work building the management capacity of small charities. However, there appears to have been relatively little other activity in the field until the Baring Foundation launched its Strengthening The Voluntary Sector programme in 1996. This means that the process of knowledge sharing, assimilation and analysis has barely begun.

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However, general interest in organisational development in the UK is growing fast. Some initial steps have been taken for example, the production of this report and the creation by the Association of Charitable Foundations (ACF) of a Capacity Building Interest Group. And, an increasing number of funders, including foundations, are considering support for organisational development.

### Drivers of interest in organisational development

In both the US and the UK, a number of environmental factors are stimulating interest in organisational development, including:

- an increased focus on how organisations are performing, witnessed for example, in the proliferation of quality standards;
- ICT both as a powerful tool for voluntary and community organisations and because it makes information about the sector much more accessible;
- the emergence of venture philanthropy as a recognised funding strategy;
- the drive for financial sustainability;
- access to loan, equity and quasi equity finance generating awareness of the capital needs of organisations;
- an increasingly complex operating environment;
- a recognition of the value of promoting infrastructure organisations as a means of supporting front line work.

One marked difference between the UK and the US, is the prominent role played by government in the UK. For example, the Home Office developed ChangeUp – a funding programme which aims to create a step change in the quality of voluntary and community sector infrastructure. The Big Lottery Fund has also recently made significant investment (see the box below). In the US, grantmaking foundations, rather than government, have been the major players.

### The UK government role

**ChangeUp** is a Cabinet Office (previously Home Office) funding programme to build capacity and infrastructure in the voluntary and community sector. Infrastructure is defined as ‘the physical facilities; structures, systems, relationships, people, knowledge and skills that help front line organisations to achieve their aims’. The programme seeks to transform front line voluntary and community organisations, so that local communities will be able to experience a real difference in the quality of services. £155m has been dedicated to the programme for spending over four years 2004-2008. The main spend so far has been on sub regional consortia developing local infrastructure development plans and running projects. Six national hubs of expertise are also being supported – these cover: volunteering; performance; workforce

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development; financing; ICT and governance. In April 2006 Capacitybuilders – a new agency – assumed responsibility for the distribution of ChangeUp funds.

The **Big Lottery Fund's BASIS (Building and Sustaining Infrastructure Services)** programme is a £155m fund for projects running until 31st March 2009. BASIS

supports voluntary and community organisations whose main or only purpose is to support the work of other voluntary and community organisations. Capital and revenue costs are being provided for projects lasting up to five years which address key issues including: access to funding; policy development and advocacy; support for trustees; promoting networking and knowledge sharing and improving planning skills.

## Emerging issues

Our research suggests that when it comes to supporting organisational development, the US is more advanced than the UK. And that given some of the common factors propelling the voluntary and community sectors in both countries, we are likely to move in roughly the same direction. If so, what can we learn from their experience – both the successes and the mistakes? And what issues can we expect to emerge here over the next five years?

### Developing the knowledge base

There is now an extensive body of literature in the US examining specific organisational development (or capacity building) programmes – see Section 4 for selected highlights. Based on this research, some general principles of effective organisational development have been established (for example, see the box below).

### What makes an effective organisational development programme?

In 2000, the Human Interaction Research Institute published a study of US funders' organisational development efforts<sup>(10)</sup>. The study found that the most effective programmes demonstrated the following eight characteristics:

- **comprehensive** – while narrowly defined approaches can work, the highest impact activities offer one-stop shopping in which customers can access a full range of organisational development services;
- **customised** – tailored to the type of organisation or group, its culture and community environment and its stage in the lifecycle;
- **competence-based** – they are offered by well-trained, reputable providers and requested by nonprofits that are knowledgeable and sophisticated 'consumers';
- **timely** – done neither too slowly to be relevant nor too quickly to allow the work to produce results in a complex environment;
- **peer-connected** – they happen when there are opportunities for peer-to-peer networking, mentoring and information sharing;
- **assessment-based** – they begin with a thorough assessment of the needs and assets of the organisation and the community in which it operates, which in turn drives the types of organisational development services provided;

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- **readiness-based** – they occur when the client is ready to receive this specialised service (for example, they are not in the middle of a major crisis);
  - **contextualised** – they occur within the context of other organisational development an organisation is undergoing, other activities by the funder, and relevant forces in its environment.

However, the consensus remains that further effort is needed to build understanding of the field. Here in the UK, we have an opportunity to build judiciously on the knowledge-base which has been collected so far, adding valuable insights from a UK – and indeed a broader European – perspective.

### **Taking a strategic approach to change**

Organisational development programmes in the US tend to be based on a ‘theory of change’. In other words, foundations decide what change they would like to bring about through their funding and then consider what forms of funding or support are most likely to achieve this change. This clarity about purpose and focus on desired outcomes makes it easier to evaluate the success of programmes.

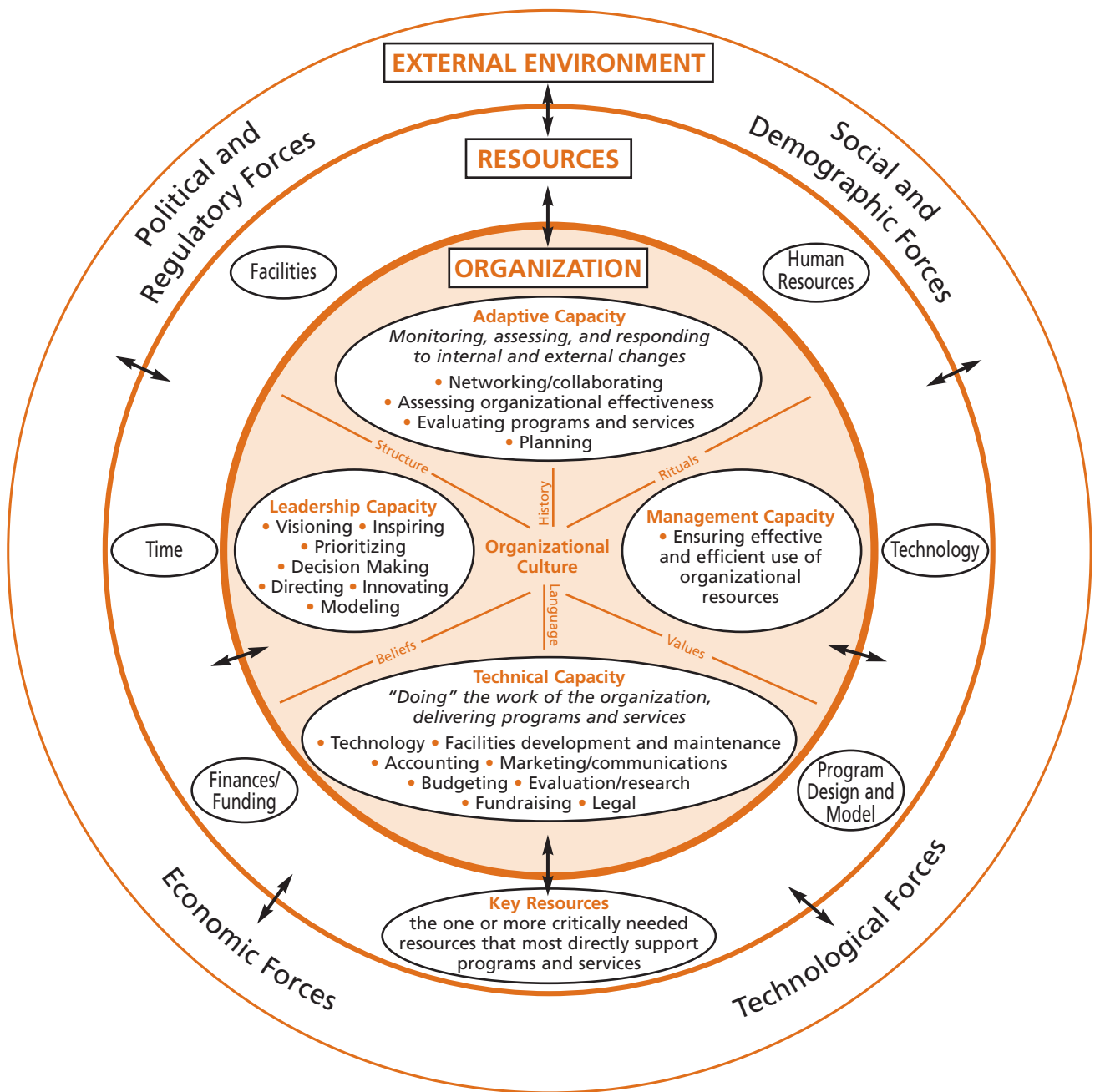
Among the US grantmaking community, ‘**logic models**’ are increasingly being used to depict the process of a particular organisational development initiative. (Such models are commonly used in the international development field, but not in domestic grantmaking). ‘Logic models’ help to clarify the underlying assumptions being made about the programme. They can be used to determine outcome measures, and monitor and evaluate progress (see page 32).

### **Building adaptive and leadership capacities**

In a report for The David & Lucile Packard Foundation, consultants The Conservation Company<sup>(27)</sup> described four types of organisational capacity:

- **leadership** capacity – the ability of all organisational leaders to inspire, prioritise, make decisions, provide direction and innovate, all in an effort to achieve the organisational mission;
- **adaptive** capacity – the ability of a nonprofit organisation to monitor, assess, and respond to internal and external changes;
- **management** capacity – the ability of a nonprofit organisation to ensure the effective and efficient use of organisational resources;
- **technical** capacity – the ability of a nonprofit organisation to implement all of the key organisational and programmatic functions.

According to the study, much current organisational development effort focuses on improving managerial and technical capacities. There is a growing awareness that in an ever more complex world, voluntary and community organisations need to build their adaptive and leadership capacities – as indeed do their advisors and funders.



**Chart 3. A Model of Nonprofit Organizational Effectiveness:  
Critical Components and Key Resources**

Reprinted with permission from Building the Capacity of Capacity Builders: A Study of Management Support and Field-Building Organizations in the Nonprofit Sector by Paul Connolly and Peter York. TCC Group © 2003

### Working in partnership

In the US, funder collectives such as the Nonprofit Management Fund and the Forbes Funds are increasingly common. Grantmakers with a common interest in a given issue or place are working together to boost the capacity of the nonprofit organisations within it. Collectives will often include not only charitable foundations, but community foundations, statutory bodies and corporate funders too. By pooling their expertise, contacts and cash, they both increase their impact and reduce risk.

The Alliance for Nonprofit Management<sup>(2)</sup> has been set up to represent all stakeholders with an interest in nonprofit organisational development. There is no equivalent body – as yet – in the UK.

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### Assuring the quality of third party support

Our interviews revealed a recurring concern about the quality and accessibility of third party support available to voluntary and community organisations. This is particularly true outside the major conurbations, where there is a limited pool of professional or academic expertise to tap into. While this complaint is most often levelled at consultants, it can also apply to unpaid advisors, academics, and voluntary and community sector infrastructure organisations.

We are pleased to note that Charities Aid Foundation (CAF) is currently working with Open University Business School to review the effectiveness of its grant programme. In particular the research will look at the effectiveness of CAF's consultancy approach and will disseminate those findings that have wider relevance to the sector more broadly. This is planned for May – July 2007.

### Building foundation effectiveness

Debate on this question has helped to focus attention on the issue of whether foundation staff themselves have the skills and experience necessary to the task of organisational development. In the academic literature, and on conference platforms, there is a growing debate on foundation effectiveness.<sup>(30)</sup> This debate emphasises “defining and promoting practices which result in grantmaking that is transparent, respectful, and which creates positive and enduring social change”. It encourages grantmakers to ask themselves a series of questions, not least:

- Are we delivering adequate return on our social investments?
- Are we effectively using the knowledge we already hold?
- Are we using or misusing tools and techniques?
- Are we supporting and promoting what works?
- And, once again, are we strengthening our adaptive and leadership capacities?

### The way forward – recommendations to the British grantmaking community

Finally, we would like to make six practical recommendations to the British grantmaking community as a whole. Some of these recommendations are relatively easy to deliver. Others will take time and will to achieve.

1. The Association of Charitable Foundations (ACF) **should develop stronger links with networks outside the UK for example with Grantmakers for Effective Organisations (GEO)** and should be resourced to share information, organise study visits and host joint seminars. As a starting point, we recommend that a small group of British funders attends the next GEO Conference, and they agree to feed their findings back to a wider audience on their return.
2. Funders engaged in supporting organisational development should share information (for example, learning from programmes, evaluation reports etc). The ACF special interest group on Capacity Building should be resourced to set up a system to **collate current practice**, and later **commission research** to evaluate the lessons learned.

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3. Further work is needed to assess the many organisational development **tools and techniques** being used in the US and in the UK, and to raise awareness of how they can best be applied. For example, diagnostic toolkits, theories of change and logic models and evaluation processes.
  4. Further work is also needed to ensure that staff involved in organisational development have the necessary skills and support materials. We recommend conducting a **training needs assessment** of organisational development in grantmaking. Then, **mapping the availability and relevance of existing training provision** to highlight any gaps. In the medium term, new courses may be created, or existing ones adapted to meet the needs of a new generation of grantmaking professionals.
  5. While funders tend these days to collaborate more we found little evidence of collaborations in funding organisational development by sub sector or locality. We recommend setting up one (or more) **funders' collective(s)**, aimed at building the capacity of charities in a particular field (for example, housing) or region (for example, the North East). This could involve statutory and corporate funders alongside grantmaking foundations. In order to provide a testbed for future joint initiatives, monitoring and evaluation should be designed into the pilot from the start.
  6. Work with other stakeholders across the sector to **improve the quality and accessibility of organisational development support** available to voluntary and community organisations is recommended. This might include:
    - mapping existing consultants and their skills;
    - setting up an easy-to-use rating system, which captures the experiences of recent clients, of all sizes;
    - actively supporting strong advisors – for example, by creating places for them to advertise and showcase their skills;
    - encouraging new individuals and organisations to get involved through awareness raising;
    - encouraging training and continuous professional development courses for voluntary and community sector consultants;
    - last but not least, giving grantees the skills needed to manage their advisors effectively.

A range of stakeholders have a keen interest in this issue including: the ACF, individual grant making foundations, Capacitybuilders and the Big Lottery Fund. It is hoped this report will provide a catalyst for greater collaborative efforts in developing the field and moving this work forward.



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## 4. Resource list

### Umbrella organisations

1. Grantmakers For Effective Organisations (GEO) – [www.geofunders.org](http://www.geofunders.org)
2. Alliance for Nonprofit Management – [www.allianceonline.org](http://www.allianceonline.org)
3. Association of Charitable Foundations – [www.acf.org.uk](http://www.acf.org.uk)
4. European Venture Philanthropy Association (EVPA) – [www.evpa.eu.com](http://www.evpa.eu.com)
5. Council on Foundations – [www.cof.org](http://www.cof.org)
6. European Foundation Centre (EFC) – [www.efc.be](http://www.efc.be)

### Key publications on organisational development

7. Strengthening Nonprofit Performance: A Funders Guide to Capacity Building, Paul Connolly and Carol Lukas, Wilder Publishing Center, 2002
8. The Capacity Building Challenge, Paul Light, Elizabeth Hubbard & Barbara Kibbe, The Foundation Center, April 2004
9. Aligning for Results, GEO Funders 2004 Conference papers
10. Strengthening Nonprofits: Capacity Building and Philanthropy, Thomas Backer, Human Interaction Research Institute, 2000

### The US 'capacity building' sector

11. Philanthropic Capacity Building Resource database – [www.humaninteract.org/reports/pcbrdatabase.asp](http://www.humaninteract.org/reports/pcbrdatabase.asp) – listing of over 350 US capacity building initiatives from foundations
12. 2005 Member Survey, GEO, 2005 – survey of policies and practices amongst Grantmakers for Effective Organisations' members
13. Building Capacity in Nonprofit Organisations, Eds Carole de Vita and Cory Fleming, Urban Institute, 2001
14. The Expanding Universe: New Directions in Nonprofit Capacity Building, Human Interaction Research Institute, Alliance for Nonprofit Management, 2004
15. Investing in Leadership, volumes 1 and 2, Betsy Hubbard/Kathleen Enright, GEO – includes a list of leadership development programmes in the USA
16. Foundation Giving Trends Preview, The Foundation Center, December 2005 – statistics on giving by US Foundations
17. Funding Infrastructure: An Investment in the Nonprofit Sector's Future, The Nonprofit Quarterly, Special Infrastructure Issue 2004 – maps and describes the main infrastructure organisations operating across the USA, plus a sample of the key subsector and regional/local organisations

### Grantmaking in context

18. The Grantmaking Tango: Issues for Funders, Julia Unwin, The Baring Foundation, 2004
19. Managing at the Leading Edge, Mike Hudson, Directory of Social Change, 2003

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## Assessment tools and techniques

20. Upstate Alliance for Nonprofit Excellence: Assessment Tools. A list of 29 assessment tools (mostly free to download) available in the USA. [www.upstateallianenp.org/assessmenttools](http://www.upstateallianenp.org/assessmenttools)
21. Effective Capacity Building in Nonprofit Organisations: McKinsey & Co for Venture Philanthropy Partners, 2001 ([www.vpppartners.org](http://www.vpppartners.org))

## Evaluations of capacity building techniques

22. Evaluation of Capacity Building: Lessons from the Field, Deborah Linnell, Alliance for Nonprofit Management, 2003
23. Transforming Philanthropic Transactions: An Evaluation of the First Five Years at SVP Seattle, Blueprint Research & Design Inc, David & Lucille Packard Foundation, 2003 – includes broader insights for the US philanthropic industry
24. Echoes from the Field; Proven Capacity Building Principles for Nonprofits, Innovation Network Inc, The Environmental Support Centre, 2001
25. Results of an Inquiry into Capacity Building Programs for Nonprofits, Susan Doherty and Steven Meyer, Effective Communities Project, February 2003

## Theories of organisational effectiveness and organisational change

26. Milestones: Managing key events in the life of a charity, The Charity Commission, RS6, December 2003
27. Building the Capacity of Capacity Builders, The Conservation Company, The David & Lucile Packard Foundation, June 2003
28. High Performance Nonprofit Organizations, Christine Letts, William Ryan & Allen Grossman, Wiley, 1999
29. Pathways to Nonprofit Excellence, Paul Light, The Brookings Institution, 2002
30. Agile Philanthropy: Understanding Foundation Effectiveness, Joel Orosz, Cynthia Phillips, Lisa Wyatt Knowlton, Grand Valley State University, February 2003. Research and a proposed model for the emerging area of Foundation Effectiveness
31. High performance organizations: linking evaluation and effectiveness, Report from 2000 GEN/GEO conference, March 2000
32. Profiles in Organisational Effectiveness for Nonprofits, Ewing Marion Kauffmann Foundation, 2001 ([www.emkf.org](http://www.emkf.org))
33. Logic Model Development Guide, W K Kellogg Foundation, January 2004
34. A tool from the International Network on Strategic Philanthropy – available at [www.insp.efc.be](http://www.insp.efc.be) or via GEO Funders – allows users to create a framework to map how a programme or initiative can be structured to move from present conditions to a vision of success. Similar tools are in development by the Innovation Network ([www.innonet.org](http://www.innonet.org)) and the Theory of Change website ([www.theoryofchange.org](http://www.theoryofchange.org))

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## Appendix A – The case study organisations

Ten case studies were selected to represent a cross-section of approaches to organisational development.

### **Bridge House Trust ([www.bridgehousegrants.org.uk](http://www.bridgehousegrants.org.uk))**

Bridge House Trust has an annual grant making budget of £16 million for spending in London. Its funding priorities are: access for disabled people; the environment; children and young people; older people in the community and strengthening the voluntary and community sectors. It provides main programme and small grants. Small grants are targeted at small voluntary organisations with incomes of less than £50,000 per annum.

The Strengthening the Voluntary and Community Sector programme was launched in response to the enormous need for capacity building funding, particularly for smaller groups to enable them to grow, become sustainable and to evaluate their impact. Since 1995, 272 grants valued at £20.5 million have been made through the programme.

### **Camelot Foundation ([www.camelotfoundation.org.uk](http://www.camelotfoundation.org.uk))**

The Camelot Foundation was set up by Camelot Group plc, the organisation which has the franchise to run the UK National Lottery. Its sponsor provides it with £2 million in income each year. The Foundation's focus is work with young people aged 11-25. It runs annual leadership awards for young people (the 4front Awards). Its Transforming Lives grants programme aims to reconnect marginalised young people back into society. It also runs a strategic change programme which will over time focus on different themes – the current theme is young people and self harm. Camelot Foundation's remit is UK wide.

Camelot Foundation became involved in organisational development to ensure that voluntary and community organisations were in a position to implement the recommendations of their National Inquiry into self harm. £1 million was available over 3 years for self harm work. Of this, £300,000 was allocated for the organisational development component of the programme – and 12 grants were made of between £20,000 and £30,000.

### **Impetus Trust ([www.impetus.org.uk](http://www.impetus.org.uk))**

Impetus was set up in 2002 to apply and test venture capital approaches in the charitable sector. It is believed to be the UK's first charitable general venture philanthropy fund. It seeks to support medium sized charities (more than £250,000 but less than £10 million annual income) delivering services to a substantial number of socially or economically disadvantaged people. The intention is to build a long term relationship with organisations and to drive up their performance by funding core costs and providing management support.

£2m was raised initially. In 2005, a campaign was launched to raise another £1m – this is on-going. 90 per cent of the funds available are given in grants. Impetus intends to spend at least 50 per cent outside London and the South East.

### **The London Housing Foundation ([www.lhf.org.uk](http://www.lhf.org.uk))**

The London Housing Foundation seeks to have a positive impact on the lives of single homeless people in London. It supports around 100 homelessness agencies across London, most of them very small. The Foundation currently has two staff members. In addition to a small grants budget, LHF operates the Impact Programme – an integrated programme of training and organisational development. The programme brings organisations together to

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work on outcomes assessment; strategy development; leadership and the sharing of best practice.

The London Housing Foundation chose an organisational development approach in order to make as much impact as possible with its limited funds. The Impact Programme costs around £150,000 a year.

**The Northern Rock Foundation ([www.nr-foundation.org.uk](http://www.nr-foundation.org.uk))**

The Northern Rock Foundation aims to tackle disadvantage and to improve quality of life in North East England and Cumbria. It uses a variety of tools to achieve its aims, including making grants through open programmes, policy work, training and development activities, special initiatives, loans and other investments. Its voluntary and community sector training activity aims to increase the effectiveness of the sector through courses, capacity building support and investments in its infrastructure. From 2003 to 2005, £8.6m was invested in this area.

Northern Rock Foundation's involvement in organisational development was triggered by concerns about the poor calibre of many of the grant applications received; and the recognition that with the right kind of support, things could be improved. It also addressed the difficulties of accessing training and information beyond the London region.

**The Blue Ridge Foundation New York ([www.brfny.org](http://www.brfny.org))**

The Blue Ridge Foundation New York was set up in 1993 by a Wall St hedge fund investor interested in social change. Since 2000 it has been pursuing a high engagement incubator approach. It supports organisations in New York developing 'effective strategies for connecting people in high poverty communities to the opportunities, resources and support they need to fulfil their potential'. Blue Ridge provides accommodation (real estate is expensive in New York); core funding and management support/technical assistance.

Blue Ridge Foundation New York aims to enable new organisations tackling poverty and discrimination to concentrate on their mission, thereby helping them maximise their social value. \$1.3m of the \$2m annual budget comprises cash grants and the remainder is spent on foundation administration and in kind support. Currently, it is working with ten organisations, all based on its premises.

**The Edna McConnell Clark Foundation ([www.emcf.org](http://www.emcf.org))**

The Edna McConnell Clark Foundation seeks to help young people from low-income backgrounds make a successful transition to independent adulthood. To achieve that goal, the Foundation works with a select group of high-performing youth organisations to help them grow stronger and better able to serve larger numbers of young people.

The Foundation's grantmaking approach is based on a comprehensive, multi-stage process used to identify promising youth development organisations, assess their overall capabilities and needs, and subsequently to invest in the growth of those organisations most capable of benefiting from the support. This involves a rigorous due diligence process, followed by business planning to determine the steps the organisation needs to take to achieve its growth. Successful candidates receive investment in the form of multi-year funding, linked to agreements about the goals the organisation says it will reach. Emphasis is placed on performance tracking and evaluation to monitor achievements and develop the organisation's capacity to evaluate work and improve its operations. Professional and technical assistance is provided in addition to funding. This includes help with communications and introductions to other funders.

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Each funded organisation generally receives support of between \$1 and \$6m for up to five years. Edna McConnell Clark Foundation's grants were worth \$30m in 2005. Programme and grant management expenses were a further \$4.7m.

**The Forbes Funds ([www.forbesfunds.org](http://www.forbesfunds.org))**

The Forbes Funds, based in Pittsburgh, aim to enhance the management capacity of the nonprofit sector in Pennsylvania through three complementary activities: grantmaking, applied research and building sector leadership. In 2004, the Forbes Funds spent \$1m across these three areas.

The Funds were launched to provide emergency financial assistance to organisations in crisis. They came to recognise the need to look more broadly at strategic sector-wide issues, rather than firefighting.

**The Nonprofit Management Fund ([www.nonprofitmanagementfund.org](http://www.nonprofitmanagementfund.org))**

The Nonprofit Management Fund is a funders' collaborative based in Wisconsin, with fifteen funders currently contributing over \$700,000 a year. The majority are grantmaking foundations. They see it as in their interests to help nonprofits focus on the business side of their operations; otherwise exemplary service providers are unable to sustain their operations or grow.

The Fund provides technical assistance grants to small and medium sized nonprofit organisations. The Fund also supports diagnostic clinics providing an in-depth assessment of organisational strengths and weaknesses. In addition to these core programmes the Fund also develops specific initiatives, such as BoardStar and the Technology Initiative and Fund. (ENTECH).

**The Tides Centre ([www.tidescenter.org](http://www.tidescenter.org))**

The Tides Center was set up to reduce barriers to entry to people experimenting in the social sector. It is a fiscal sponsor for organisations 'working towards progressive social change'. It receives and manages funding for nonprofits enabling them to concentrate on achieving their missions. It provides a range of back office services, including financial, HR, payroll, risk and liability, compliance, and grants management, as well as capacity-building support (for instance helping build advisory boards, develop appropriate HR policies, and create budgets). It provides its services remotely or its staff travel to provide face-to-face support to 200 organisations nationwide. Most of the organisations the Tides Center sets out to help are start ups, although some have stayed with the Center for as many as 10 years.

The annual budget for the Tides Centre is \$4.5m. It has always been self financing. It charges a percentage commission on the funds it receives and manages for its organisations.

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## Appendix B – Organisational development programmes run by other UK-based foundations

In addition to the five case study organisations profiled in our main report, we identified a further ten grantmaking foundations using an organisational development approach. Brief descriptions of these programmes are listed below (these are based on web research only). For more information, visit the relevant website.

### **Absolute Return for Kids (ARK) ([www.arkonline.org](http://www.arkonline.org))**

ARK supports projects that transform the lives of children who are victims of abuse, disability, illness and/or poverty. It selects themes to focus its activities and researches an issue or theme. It does not accept unsolicited applications. It examines the cost effectiveness of the projects it is considering supporting and only provides a grant when it has a high degree of confidence that funds will be efficiently deployed.

*Remit:* UK and overseas

*Approach taken:* It provides grants that are large relative to organisational turnover and seeks to develop a long term relationship with the organisations it supports. It starts new voluntary organisations in response to unmet needs. It works with individuals and informal groups to help develop ideas and helps new organisations develop business plans, organise recruitment, tackle marketing or expansion. When an organisation is better established it adds value through grant management and monitoring.

*Budget and grant levels:* In the year to end September 2004 it funded 8 projects in the UK to a value of £7.9 million.

*Of note:* It brings funded organisations at different stages of their development together to share their expertise.

### **The Andrews Charitable Trust ([www.andrewscharitabletrust.org.uk](http://www.andrewscharitabletrust.org.uk))**

The mission of the Andrews Charitable Trust is to support social change. It helps new charities to launch and grow to viability. It also supports organisations seeking to make a step-change in their development. It aims to link the worlds of charity and business to ensure innovation, replication and the sustainability of charitable ventures that offer solutions to a range of world problems affecting disadvantaged people.

*Remit:* UK and international.

*Approach taken:* It provides grant funding and intensive management support to two or three organisations at a time. It:

- focuses on innovative ideas or ways to address issues of poverty
- backs people or groups in the early stages of a new venture
- backs organisations seeking a significant step-change in their work i.e. to replicate what they currently do so that it benefits a region or the national or international community

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- has a 'hands on' approach to grant-making i.e. it seeks to add value with a blend of governance, management, advice and networking input to the organisations it works with
  - promotes viability and the independence of the organisations it works with within three years.

It is prepared to offer support to emerging or pre-popular work.

*Budget and grant levels:* Information not available on the website

### **The Baring Foundation ([www.baringfoundation.org.uk](http://www.baringfoundation.org.uk))**

The Baring Foundation was set up in 1969 to give money to charities and voluntary organisations. It runs three main grants programmes:

- International development;
- Strengthening the Voluntary Sector; and
- Arts.

*Remit:* Funds international, national and local organisations based in the UK.

*Approach taken:* The Strengthening the Voluntary Sector programme has had two elements core grants for strategic projects and project or small grants. Until March 2006 small grants of up to £30k were awarded to individual organisations to help them to improve their own effectiveness or to provide services to make other organisations more effective. The type of work funded included: the introduction of organisational strategy and business planning or fundamental reviews of existing strategies and plans: formal combined working or mergers; the introduction of appropriate ways of assessing and improving the overall quality and effectiveness of an organisation; making organisations more responsive to the needs of their users or potential users. In 2006 the Baring Foundation decided to focus this entire programme on grants that helped voluntary organisations maintain their independence from government.

*Budget and grant levels:* The Baring Foundation has around £3 million to award in grants each year and around half of this is spent on the Strengthening the Voluntary Sector programme.

### **Charities Aid Foundation ([www.cafonline.org](http://www.cafonline.org))**

The CAF grants programme supports the development of small to medium sized charities (with an annual income not exceeding £3 million) by providing consultancy and funding for training and collaborative projects.

*Remit:* UK and internationally for collaborative grants.

*Approach taken:* There are two funds – training and consultancy and the collaboration fund.

- Training and consultancy – this provides a package of support to a value of £20k tailored to the organisation's needs. The package could include consultancy support, a general grant and a grant for training. Consultants undertake organisational reviews, strategic planning/business planning, board development, work on funding and resourcing strategies, financial management and mergers and partnerships.

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- Collaboration – CAF works with a small number of organisations each year that share its mission to increase effective giving. Packages of support are tailored to the needs of the organisation and include consultancy, an award of up to £100k and direct help from CAF for example, with research to underpin the development of a new grant making programme.

*Budget and grant levels:* £1.2 million is available annually for this work.

### **City Parochial Foundation ([www.cityparochial.org.uk](http://www.cityparochial.org.uk))**

The City Parochial Foundation aims to benefit the poor of London. It has in the past funded second tier organisations providing support to its target groups: BME communities; refugees and asylum seekers; young people; people living in areas of long term poverty; disabled people and lesbians and gay men. However, it is currently reviewing its policy and programmes. It plans to publish guidelines for new grants programmes in Autumn 2006.

City Parochial is also trustee for the Trust for London. It supports small organisations with no more than two full time paid staff. It shares City Parochial's funding priorities.

*Of note:* City Parochial owns the London Resource Centre. This provides office space, meeting and conference facilities to voluntary organisations working in London.

### **Clore Duffield Foundation ([www.cloreladership.org](http://www.cloreladership.org) and [www.cloreduffield.org.uk](http://www.cloreduffield.org.uk))**

The Clore Duffield Foundation was founded in 1964. It supports education, the arts, museum and gallery education, cultural leadership training, health and social welfare. It places a particular emphasis on supporting children, young people and the most vulnerable in society. It has two distinct grant making strands: a Main Grants Programme and Performing Arts Awards which support performing arts education for under 18s. The foundation also sometimes works proactively to fill gaps in provision – a good example is its cultural leadership programme.

*Remit:* UK

*Approach taken:* The foundation runs a programme of cultural leadership training in the UK. There is no formal qualification, but each participant accepted on the programme is entitled to call themselves a 'Clore Fellow'. The training is modular and comprises a number of different activities: short intensive leadership courses; personal coaching; secondment; mentoring, bursaries to attend training and development courses; research fellowships to spend a term or more at a university; an annual event called the cultural leadership lab. Fellows are also encouraged to form their own support networks and action learning sets.

*Budget:* information not available on the website.



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### **Esmee Fairbairn Foundation ([www.esmeefairbairn.org.uk](http://www.esmeefairbairn.org.uk))**

The Esmee Fairbairn Foundation is an independent grant making foundation. Its funding themes are:

- arts and heritage;
- education;
- environment and
- social change: enterprise and independence – aimed at tackling the needs of those at greatest disadvantage.

*Remit:* The UK

*Approach taken:* The social change programme provides grants under three headings: enterprising communities; financial independence and special initiatives responding to new ideas or emerging trends. The enterprising communities part of the programme provides grants for work which enables voluntary and community organisations to achieve some degree of sustainability (for example, through trading activities) or for social businesses to improve their business or social performance.

*Budget and grant levels:* The foundation's annual grants budget is £26 million. In 2005, it spent £17.7 million on the social development programme; the average grant was £41k. Loans are also provided.

### **Fidelity UK Foundation ([www.fidelityukfoundation.org](http://www.fidelityukfoundation.org))**

The Foundation was set up in 1988. It describes its aim as 'to encourage the highest standards of management and self reliance in voluntary organisations'. It funds organisations working in the following areas: community development; health; arts and culture and education.

*Remit:* Kent, Surrey, London and continental Europe

*Approach taken:* It provides grants for major projects including capital improvements, technology upgrades, organisational development and planning initiatives.

*Budget and grant levels:* Not published on its website

### **Lloyds TSB Foundation, England and Wales ([www.lloydstsbfoundations.org.uk](http://www.lloydstsbfoundations.org.uk))**

Lloyds TSB Foundation – England and Wales is an independent grant making foundation. It funds work which helps people, particularly disadvantaged or disabled people, play a fuller role in the community. It is particularly interested in receiving applications from small, underfunded charities. The foundation has three programmes:

- Community programme – the majority of the funds are distributed through this programme.
- Collaborative programme – funding to encourage collaborative working between voluntary organisations and between voluntary organisations and public sector agencies (generally, the foundation is proactive in identifying opportunities for collaborative working);

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- Specialist funding stream – in 2006 funding will be provided to charities whose work is aimed at helping ex-offenders more effectively integrate into society.

*Remit:* England and Wales (trustees/staff are based in the regions of England and in Wales).

*Approach taken:* The foundations priorities for 2006 are to support charities working with the following groups to enable these groups to play a fuller role in their communities:

- people from BME communities;
- refugees and asylum seekers;
- older people;
- people with a learning disability.

*Budget:* The foundation made grants valuing nearly £19.5 million in 2005. 66 per cent was spent on its three priorities for the year: refugees and asylum seekers; supporting diversity and inclusion in charities and capacity building for charities with an income of up to £750k.

### **The Wates Foundation ([www.watesfoundation.org.uk](http://www.watesfoundation.org.uk))**

The Wates Foundation is directed by members of the Wates family, whose aim is “to improve the quality of life of the deprived, disadvantaged and excluded in the community in which we live” through informed and independent intervention.

*Remit:* Greater London, especially South London

*Approach taken:* There are five programme areas, including ‘Community Development’, which aims “to contribute to the development of the sector by strengthening organisations particularly in the areas of infrastructure, governance, training, finance, qualifications and accreditation of work and quality standards.”

Core grants are a major part of the Foundation’s Large Grants programme, often providing unrestricted funding over a number of years conferring financial flexibility and longer term sustainability. The Foundation funds training, work on quality standards or new administrative posts to help free up managers to concentrate on more strategic issues.

*Budget and grant levels:* At least £1.7m a year – of which £250,000 is allocated to small grants of up to £10,000.



Today, both grantmakers and their beneficiaries are faced with the same important questions: how can we make the best use of limited resources in the face of ever growing need? And how can we develop and sustain high quality services in an ever more challenging environment?

In response more funders are considering supporting organisational development (as opposed to grants for the delivery of particular services).

This report aims to support and encourage the growing interest in organisational development, by sharing some of the knowledge and experience of UK and US grantmaking foundations. The study is based on an extensive literature review, supplemented by a series of expert interviews on both sides of the Atlantic. To illustrate the findings, the report focuses on ten case study organisations: five from the UK and five from the US.

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