

2005 TROPMAN REPORTS

Applied Research about the Pittsburgh Region's Nonprofit Sector

NONPROFIT “CAPACITY-BUILDING ORIENTATION”: *The Role of Learning in Building Nonprofit Performance*



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Amidst increasing attention to nonprofit performance, interest in nonprofit capacity-building activities has understandably intensified. A natural outgrowth of this interest is an expansion in the number and range of nonprofit capacity-building providers and approaches. In response to this growth, The Forbes Funds, in 2004, commissioned Judith Millesen, at the Voinovich Center for Public Affairs and Leadership at Ohio University, and Angela Bies, at the Bush School of Government & Public Service at Texas A&M University, to examine the quality of Pittsburgh's capacity-building industry and to identify the characteristics of effective capacity-building initiatives.

This study expands on that earlier research by investigating questions of why and how nonprofit organizations engage in capacity building, as well as the ways in which organizational, managerial, and financial characteristics relate to capacity building. The current literature on nonprofits provides useful theoretical insight to understanding externally driven mechanisms for improvement, and, by extension, insight into incentives for engagement in capacity building. What is less well explored are the internal mechanisms that drive and motivate boards, managers, and key staff to pursue capacity building as ongoing and integrated processes of organizational change and capacity improvement. Learning theory provides such insight.

This study addresses the following research questions:

1. What factors predict higher levels of engagement in capacity building by nonprofit organizations?
2. What factors predict higher levels of organizational capacity?

Drawing on capacity-building processes outlined in previous research,¹ Millesen and Bies utilize herein a pragmatic framework, informed by a “learning organization” paradigm and defined by social, structural, and technological dimensions.² The social dimension

¹ Millesen, J., & Bies, A. (2004). *An analysis of the Pittsburgh region's capacity-building industry: Who is doing what for whom and to what end?* Tropman Report: Applied research about the Pittsburgh Region's Nonprofit Section, (3) 3, 9–14. Millesen and Bies identified capacity-building processes as having a “general organizational orientation toward self-assessment and change with appreciable improvements in organizational performance.” They further detailed this orientation as involving “organizational leaders who believe that capacity building is a good use of organizational resources, crucial to success, central to achieving mission-related goals and objectives, and useful for organizational improvement.” From this, Millesen and Bies posited that this orientation was important to capacity-building engagement, based on processes of learning, and related to leveraging organizational change.

² See Senge, P. (1990). *The fifth discipline*. New York: Doubleday for practical approach to learning organization paradigm, based in part on organizational learning theory. See Argyris, C. & Schön, D. (1974). *Theory in practice: Increasing professional effectiveness*. San Francisco: Jossey-Bass, for seminal work on organizational learning. See also Argyris, C. & Schön, D. (1996). *Organizational learning II: Theory, method, and practice*. Reading, MA: Addison-Wesley for contemporary work on organizational learning.

involves leadership participation, managerial discretion or strategic choice, and the empowerment of employees. The structural dimension involves organizational policies and practices oriented toward shared leadership, employee participation, and horizontal integration within organizations. The technological dimension involves firm-specific expertise and decision-making based on evidence or data.

METHOD, DATA SOURCES, AND MEASURES

Data are derived from a three-stage multi-method research methodology and data collection strategy. This strategy utilizes archival data, rich qualitative data, and multi-variate quantitative data from a survey completed by 208 Allegheny County nonprofit organizations. The survey measured nonprofit capacity-building orientation, levels of capacity-building engagement, and nonprofit organization capacity.

CONTEXT

Before examining the factors associated with engagement in capacity building and organizational capacity, it is useful first to detail the measures utilized and, in turn, describe the sample in terms of the levels of these measures.

Nonprofit Capacity-Building Orientation.

Based on the learning organization paradigm, 11 survey questions were utilized to measure the social, structural, and technological dimensions of nonprofit capacity-building orientation. These 11 items were summed and added to create a combined scale, "Capacity-Building Orientation," ranging from 0 to 11, with 0 being a low level of orientation and 11 being a high level of orientation. The sample is modestly skewed toward this learning orientation, with the mean "Capacity-Building Orientation" score being 6.133. The scale was found to have an acceptable reliability score of .84. Examples of questions related to the social dimension are: "Our management team prioritizes capacity-building initiatives," and "Our board is supportive of capacity-building initiatives." Examples of questions related to the structural dimension include: "Capacity building is part of our organizational orientation," "We have enough time for capacity building," and "Capacity building is a good use of organizational resources." Examples of questions related to the technological dimension include: "It is important for us to have employees with nonprofit management-related degrees," "We build capacity through our internal ability to solve problems," and "Capacity building has helped us to gather information about how to improve our programs."

Organizational Characteristics.

The sample can be described by a number of relevant organizational characteristics. Respondents include human service (38%), educational (17%), economic and community development (11%), health (10%), and arts/culture

(8%) agencies. The sample is evenly distributed in terms of organizational age, organizational size measured by annual expenses, and in terms of financial measures such as the diversity of revenue sources. The average (mean) age of respondent CEOs was 48 years old, with an organizational tenure of 9.16 years. This group was predominately Caucasian (76%), highly educated (67% with advanced degrees), and almost equally split in terms of gender (48.5% female, 50.5% male).

Engagement in Capacity Building.

Engagement in capacity building can be conceived of in the variety of ways that nonprofits make financial, human resource, and other organizational investments in capacity building. Nearly half of the respondents (46.0%) reported reimbursing employees for continuing education expenses. In the past two years, more than 58.4 percent indicated they had hired a consultant, 59.9 percent said that they had attended a workshop, training, or seminar, and 55.4 percent claimed they had participated in a peer-learning initiative. More than one third of respondents (39.1%) indicated that staff members spend at least one full day per month dedicated to professional development, and that in the preceding 12-month period, the organization had invested an average of \$41,502 in capacity-building initiatives, with the most frequent investment at a level of \$15,000. On average, 2.7 percent of annual operating expenses were devoted to capacity-building expenditures.

Nonprofit Organization Capacity.

The work of Paul Connolly and Peter York was utilized to frame nonprofit organization capacity into "four core capabilities essential to any nonprofit," including: 1) adaptive capacity; 2) leadership capacity; 3) management capacity; and 4) technical capacity. Adaptive capacity encompasses planning, assessment, evaluation, and collaboration. Leadership capacity refers to board and executive leadership. Management capacity is associated with effective use of human, operational, and volunteer resources. Technical capacity is related to the implementation of core organizational and programmatic functions. Each of the four areas of nonprofit organization capacity was first measured; these measures were then summed to create a combined scale to measure overall nonprofit organization capacity.

FINDINGS

Table 1 provides a summary of factors predictive of engagement in nonprofit capacity building. Table 2 provides a summary of factors predictive of nonprofit organization capacity. Each table includes only those factors with statistically significant values, the direction of the relationship, and a related statement of the finding.³ A discussion of key findings follows the tables.

³ For a thorough presentation of the statistical analysis and related quantitative findings, please see the technical report associated with this Tropman Report, which is available on The Forbes Funds website, www.forbesfunds.org.

TABLE 1. WHAT FACTORS PREDICT ENGAGEMENT IN CAPACITY BUILDING?
SUMMARY OF MULTIPLE REGRESSION ANALYSIS, SIGNIFICANT FINDINGS

FACTORS PREDICTING HIGHER LEVELS OF NONPROFIT ENGAGEMENT IN CAPACITY BUILDING (MEASURED BY FINANCIAL INVESTMENT)	IS THERE A STATISTICALLY SIGNIFICANT RELATIONSHIP?	WHAT IS THE DIRECTION OF THE RELATIONSHIP?	WHAT DOES THIS REVEAL?
Nonprofit Capacity-Building Orientation	Yes	Positive	<i>Higher levels of capacity-building orientation are predictive of higher levels of engagement in capacity building.</i>
Other Organizational Characteristics:			
Number of Years Organization in Existence	Yes	Negative	<i>The age of the organization is negatively related to engagement in capacity building; younger organizational age is predictive of higher levels of engagement.</i>
Human Services Mission	Yes	Negative	<i>Mission is related to engagement; being a human service agency is predictive of lower levels of engagement.</i>
Currently Collaborate with Other Organizations to Deliver Core Programs and Services	Yes	Positive	<i>Collaboration with other organizations is predictive of higher levels of engagement.</i>
Had Cash Shortfall in the Past Three Years	Yes	Negative	<i>Having a cash shortfall is predictive of lower levels of engagement.</i>
Diversity of Financial Resources	Yes	Positive	<i>Having a diversity of financial resources is predictive of higher levels of engagement.</i>
CEO with Advanced Degree	Yes	Positive	<i>Having a CEO with an advanced degree is predictive of higher levels of engagement.</i>
Dependence on Government Funding, Dependence on Foundation Funding	Yes	Negative	<i>Being dependent on government or foundation funding is predictive of lower levels of engagement.</i>

Note: Statistical significance is at least $p < 0.05$.

The model also controlled for a variety of other organizational characteristics, including organizational size and satisfaction level with capacity-building provider types and content areas. Only statistically significant results are presented here.

DISCUSSION

Higher levels of capacity-building orientation are predictive of both higher levels of engagement in capacity building and higher levels of nonprofit organization capacity.

- These findings had the largest and strongest statistical values in both analyses. When an organization has a high level of nonprofit capacity orientation — *a learning orientation involving shared leadership, broad staff participation, evidence-based practices, and organizational policies supportive of capacity-*

building — not only is it more likely to direct financial resources toward capacity building, but it is also likely to exhibit higher levels of organization capacity.

Higher levels of engagement in capacity building are predictive of higher levels of nonprofit organization capacity.

- Financial investments in capacity building are predictive of higher levels of organization capacity. This finding reinforces the role of managerial discretion, strategic choice, and continuous improvement in capacity building.

TABLE 2. WHAT FACTORS PREDICT NONPROFIT ORGANIZATION CAPACITY?
SUMMARY OF MULTIPLE REGRESSION ANALYSIS, SIGNIFICANT FINDINGS

FACTORS PREDICTING HIGHER LEVELS OF NONPROFIT ORGANIZATION CAPACITY	IS THERE A STATISTICALLY SIGNIFICANT RELATIONSHIP?	WHAT IS THE DIRECTION OF THE RELATIONSHIP?	WHAT DOES THIS REVEAL?
Nonprofit Investment in Capacity Building	Yes	Positive	Higher levels of capacity-building orientation are predictive of higher levels of organization capacity.
Nonprofit Capacity-Building Orientation	Yes	Positive	Having a capacity-building orientation is predictive of higher levels of organization capacity.
Other Organizational Characteristics:			
Proportion of Staff Participating in Capacity-Building Activities	Yes	Positive	High staff participation in capacity-building activities is predictive of higher levels of organization capacity.
Proportion of Board Members Participating in Capacity-Building Activities	Yes	Positive	High board participation in capacity-building activities is predictive of higher levels of organization capacity.
Currently Collaborate with Other Organizations to Deliver Core Programs and Services	Yes	Positive	Collaboration with other organizations is predictive of higher levels of organization capacity.
Had Cash Shortfall in the Past Three Years	Yes	Negative	Having a cash shortfall is predictive of lower levels of organization capacity.
Diversity of Financial Resources	Yes	Positive	Having a diversity of financial resources is predictive of higher levels of organization capacity.

Note: Statistical significance is at least $p < 0.05$.

The model also controlled for a variety of other organizational characteristics, including organizational size and satisfaction level with capacity-building provider types and content areas. Only statistically significant results are presented here.

Board and staff involvement in capacity building are related to higher levels of nonprofit organization capacity.

- These findings are complementary to the learning organization paradigm that suggests that both leadership and broad staff participation matter.

Certain organizational characteristics relate to levels of engagement in capacity building.

- Both organizational age and human service mission are negatively predictive of engagement in capacity building. This finding warrants additional inquiry. Because neither

variable is predictive of higher levels of nonprofit organization capacity, it is not clear that such organizations do not have a need to engage in capacity building. They may have a disincentive to engage in capacity building, but this also is not clear from the existing data.

- Having a CEO with an advanced degree is predictive of engagement in capacity building. This may be a result of specialized training either more closely related to technical dimensions of the organization or an orientation toward learning, both of which would complement nonprofit capacity-building orientation.

Financial characteristics are related to both engagement in capacity building and nonprofit organization capacity.

- Organizations with a healthy financial picture, as demonstrated by having a balanced and diverse set of revenue streams, are more likely to engage in capacity building and report higher levels of nonprofit organization capacity.
- Organizations with an unhealthy financial picture, as demonstrated by a financial deficit, are both less likely to engage in capacity building and less likely to report high levels of nonprofit organization capacity.
- The source of funding seems to matter, in some instances. Organizations that are dependent on governmental or foundation funding for more than 25 percent of their revenue reported being less likely to engage in capacity building. This is consistent with qualitative findings in which several CEOs viewed capacity-building expenditures as relating to non-mission related expenses and reported concern about demonstrating inefficiency to governmental funders. This might be indicative of either funder pressure for efficiency as a narrow performance criterion or of nonprofit misconceptions of how to account for capacity-building expenditures that might more accurately relate to programmatic expenditures or performance improvement. Qualitative findings also suggest that organizations that need capacity-building assistance might be unwilling or fearful to reveal this to funders or to seek assistance. In addition, qualitative data suggest that a key barrier to engagement is “limited capacity to build capacity,” because many institutional funders are more inclined to fund programmatic expansion rather than capacity-building investments.

Collaboration with other organizations is related to higher levels of both engagement in capacity building and nonprofit organization capacity.

- In the learning organization paradigm, the organization attempts to shape the social, structural, and technological dimensions to increase managerial discretion, broaden staff participation, and gain additional data and information while reducing uncertainty in the environment. Collaboration with other organizations might increase learning through additional technical knowledge obtainment and staff experience.

IMPLICATIONS AND RECOMMENDATIONS

This application of and empirical test of learning theory illuminates one clear aspect of how organizations engage in capacity building: by possessing a high level of “capacity-building orientation.” Importantly, this capacity-building orientation is highly predictive not only of engagement in capacity building, but more importantly of organization capacity. Based on this study’s measurement of the Connolly and York conception of nonprofit organization capacity,

nonprofits with a high level of capacity-building orientation are more likely to report high levels of adaptive, leadership, management, and technical capacity.

The learning organization paradigm, and this study, suggest several ways to promote a capacity-building orientation: promote broad-based board and staff development and opportunities for participation; empower employees at various levels in organizations; promote internal policies conducive of evidence-based practices; encourage knowledge acquisition and dissemination; and reward discretionary management strategy that is responsive to external environments, performance improvement drivers, and internal dynamics.

Several additional recommendations emerge:

- **Promote fiscal health.** This study corresponds with other research on nonprofit fiscal health that suggests that a diversity of financial resources is associated with greater managerial discretion, strategic choice, and longer term financial stability. Capacity-building assistance related to financial diversification is advised.
- **Develop avenues for horizontal integration and broad staff participation.** Consistent with learning theory, this study suggests that shared leadership and participation of staff at a variety of levels in the organization is important. The development of middle managers would assist such efforts.
- **Support formal education opportunities for nonprofit personnel.** This study points to the importance of advanced or specialized training for nonprofit CEOs. As the nonprofit sector in Pittsburgh prepares for turnover at the CEO level, it will be important also to consider fostering participation in advanced training for promising new and future nonprofit CEOs.
- **Board participation promotes nonprofit organization capacity.** Also consistent with the learning organization paradigm is the finding that board support of and participation in capacity-building efforts relates to organization capacity.
- **Collaboration among nonprofits can produce organizational capacity.** Although this study does not illuminate precisely how collaboration relates to nonprofit organization capacity, learning theory suggests collaboration might produce stronger knowledge bases, greater information dissemination, and shared-learning among personnel. When capacity-building assistance is provided to promote collaboration, it would be wise to attend also to the development of a capacity-building orientation.
- **Advocate a change in orientation by institutional funders.** This study suggests that it may be important to move beyond narrow efficiency criteria and promote a broader set of performance and improvement criteria.

Similarly, it may be important to moderate the perspectives of some nonprofit CEOs to conceive of, execute, and account for capacity-building activities in ways that complement programmatic goals and extend nonprofit organization capacity.

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READ THE COMPLEMENTARY ANALYSIS TO THIS STUDY: 2005 TROPMAN REPORT VOLUME 4, NUMBER 2 — *Why Engage? Understanding the Incentive to Build Nonprofit Capacity*. ALSO, FOR MORE INFORMATION ABOUT THE CRITICAL MATTERS FACING NONPROFIT TRUSTEES AND STAFF, AND THE RESULTING NEED FOR CAPACITY BUILDING, POINT YOUR BROWSER TO WWW.FORBESFUNDS.ORG AND DOWNLOAD A COPY OF *Facing the Futures: Building Robust Nonprofits in the Pittsburgh Region*, BY DR. PAUL C. LIGHT, NEW YORK UNIVERSITY AND THE BROOKINGS INSTITUTION.

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