

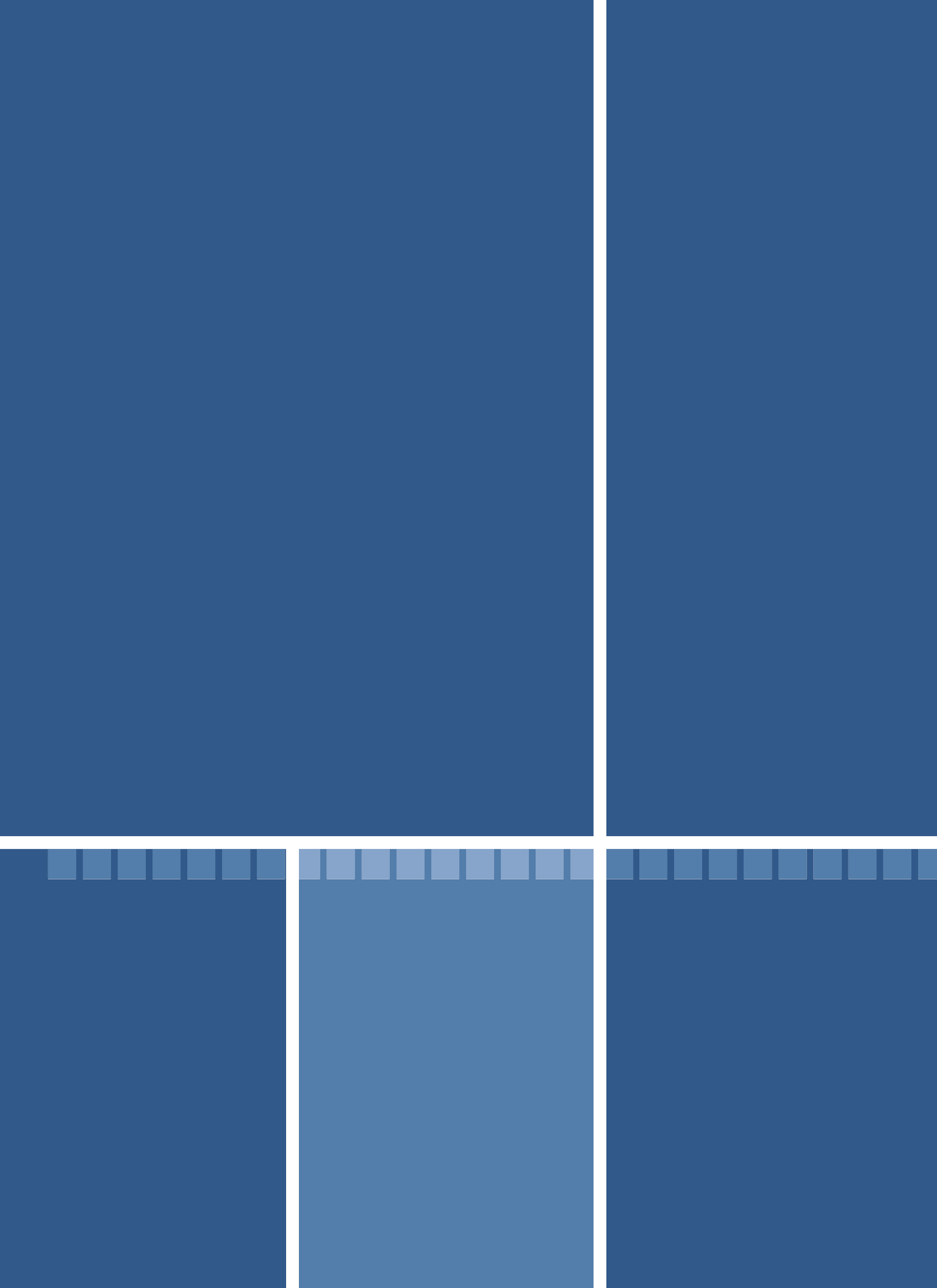
venture philanthropy partners

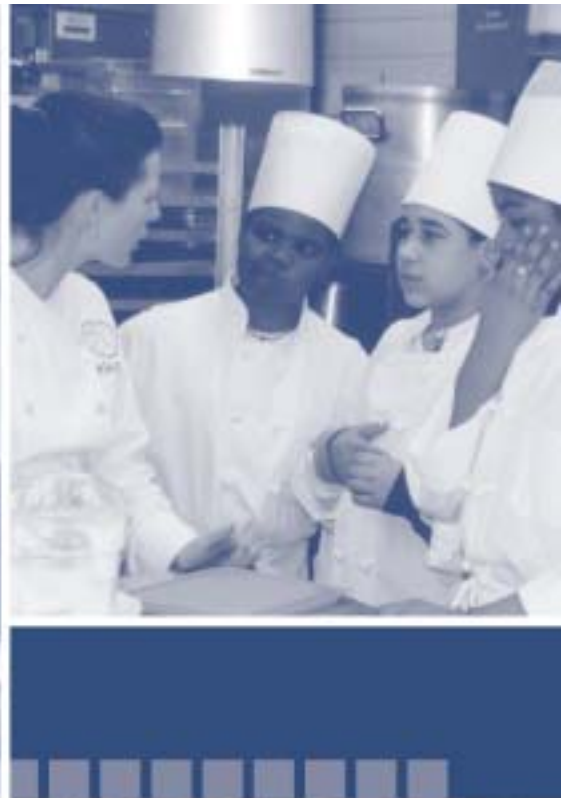
investing in social change



Effective Capacity Building in Nonprofit Organizations

Prepared for Venture Philanthropy Partners
by McKinsey & Company





Effective Capacity Building in Nonprofit Organizations
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PREFACE

“While much of the focus on venture philanthropy is on ‘capacity building,’ this term has not been defined by either the new venture philanthropists or the nonprofits who represent the potential investment recipients, and may well mean something different to each of them” says our published report, *2001 Venture Philanthropy: The Changing Landscape*. Since capacity building is embraced and practiced by most people involved in venture philanthropy and many in traditional philanthropy as well, a broader understanding of the concept is warranted.

Investing in the people and systems that make products and services better is well established in the for-profit sector. Consider the millions spent on staff and warehouse facilities before Amazon.com ever went on line. Similarly, the three business leaders who founded Venture Philanthropy Partners with 27 other investors have been involved in substantial capacity building investments in the business world for years. They asked why organizations created to eradicate poverty and solve the complex social problems of our society are often not financed in a way that allows them to develop or maintain their infrastructure. Those investors created VPP to speak to that disparity. They decided to pool their resources to make some substantial capacity building investments in programs serving children from low-income families and use the knowledge gained from those investments to encourage others to do the same. Their purpose was not to impose their personal agendas, but rather to bring funds and expertise to strengthen nonprofits with demonstrated success so those organizations could do even more to improve the lives and opportunities of children.

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— 2001 Venture
Philanthropy:
The Changing
Landscape

As VPP began planning its fund, it seemed clear that we needed to better understand how to make successful investments in organizational capacity. Several foundations, support organizations and think tanks have begun to explore capacity building. As Elizabeth T. Boris, director of the Center on Nonprofits and Philanthropy at The Urban Institute, noted in their recent report, “Capacity building for nonprofit organizations is finally drawing the attention it deserves ...ad hoc lessons culled from personal experience are giving way to more systematic approaches.” Our goal is to contribute to this growing body of knowledge as well as learn from it. We are fortunate to be working in the Washington, DC region where a significant amount of this work is underway.

We also realized that agreeing on a definition was not nearly as important as understanding the characteristics of successful capacity building investments. We asked McKinsey & Company, one of our strategic advisors, to identify examples of successful capacity building experiences at nonprofits across the country. We wanted to learn from those experiences in order to refine our own investment model and share those insights with others.

The findings of the McKinsey team are not altogether surprising. They confirm what many in the social sector recognized - that capacity building is both important and difficult. This report builds on that knowledge by clarifying and broadening the definition of capacity building. The findings of this report represent a collective body of information that we believe will be useful to the social, public and private sectors.

In addition to the study, McKinsey developed a capacity assessment tool for nonprofits. We believe this tool will help nonprofit leaders and staff gauge where they are in their organizational lives and identify for themselves their capacity building needs.

We hope this report will benefit several important communities. For foundations and individual investors, we hope these findings will bring greater clarity and understanding of the value of capacity building and its essential role in allowing nonprofits to achieve their mission. For organizations that want to improve the breadth and depth of their work, this report offers practical lessons from others as well as tools and guidance on self-evaluation that can help prepare them to receive capacity building support. We share the expectation with these communities that together we can help good ideas become great programs that will bring significant social gain and will improve the lives of many.

Mario Morino
Chairman of the Board

Gary F. Jonas
Managing Partner

Venture Philanthropy Partners, Inc.





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