Community Foundations as Capacity Builders:
An Examination of How Community Foundation Are Enhancing the Nonprofit Sector

NMP 650 – Leading Change for Nonprofit Organizations  
NMP 670 – Capstone: Advancement Management Seminar

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DEDICATION

This capstone paper is dedicated to my Grandpa – Ted Strawser.

A man who inspired me to give, be involved, and be the change I wished to see in the world
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ABSTRACT

The purpose of this study is to examine current practices and initiatives put in place by community foundations to assist in building organizational capacity within the nonprofit sector. In recent years, organizational capacity building has been a topic of interest within the Indiana community foundation field, however not a lot of training or research has been conducted on the topic. Community foundations are implementing grant programs and initiatives that assist organization in enhancing internal functions to assist in achieve programmatic success. In order to further understand these grant programs and initiatives, a survey of Indiana program officers was conducted. Overall findings of this study revealed that community foundations in Indiana are introducing organizational capacity building programs, but still at the novice level. In addition, some community foundations are confused on what constitutes as organization capacity building, which a series of recommendations proposed at the end of this paper hopes to address.
CHAPTER 1: INTRODUCTION

BACKGROUND OF THE TOPIC

The 21st century has been a time for change in the nonprofit sector. In the age of big data, donor choice, and expansion of technology, organizations have been forced to adapt in order to maintain current stakeholders and engage new stakeholders. While community foundations have been conducting organizational capacity building initiatives for decades, the economic recession of 2008 forced nonprofits to think innovatively about their funding sources and programmatic priorities. While some organizations were able to smoothly transition into the new age of the nonprofit sector during and after the economic recession, some organizations simply lacked the organizational capacity to successfully make the transition.

While capacity building has been around for many years, foundations began to notice that many organizations were still floundering post-recession, therefore different capacity building interventions have been started by foundations seeking to change the nonprofit landscape. The theory behind many capacity building initiatives is that if organizations are equipped with the knowledge and resources they need, they are able to conduct successful programs and services and therefore be better partners for foundations interested in using a strategic philanthropic approach to their work. Many funders have begun to increase nonprofit capacity through grant funding, training initiatives, and many other concepts that will be explored in this paper.

For the purpose of this study, the following definition will be used to describe nonprofit organization capacity – “Organizational capacity is the set of structures and functions a nonprofit organization needs to effectively serve the community” (Despard, 2016, p. 1). In regards to
capacity building, this paper adopts the definition of the National Council on Nonprofits (n.d.) – “Capacity building is an investment in the effectiveness and future sustainability of a nonprofit”.

Indiana is fortunate to have community philanthropy support due to the generous contributions of the Lilly Endowment. The state currently has 94 community foundations that serve the 92 counties within Indiana. Community foundations were started thanks to a community capacity building initiative by the Endowment, and as many community foundations are now celebrating their 25th anniversaries, it may be time for them to consider how they can pay it forward through nonprofit capacity building. Funders and nonprofits can work closely to create strong relationships that increase organizational effectiveness, however it is currently unclear how community foundations in Indiana are aiming to support their grantees.

PURPOSE OF PROJECT AND RESEARCH QUESTION

The purpose of this study is to examine current practices and initiatives put in place by community foundations to assist in building organizational capacity within the nonprofit sector. In recent years, capacity building has been a topic of extreme interest within the foundation world. Foundations are wanting to see organization achieve more with the funds that are being distributed to them and increasing organizational capacity has been a priority of some foundations.

The research question guiding this project is: What are the current practices, initiatives, and views of Indiana based community foundations in regards to nonprofit capacity building, and what resources do they need in order to provide capacity building support to nonprofit organizations?
POTENTIAL AUDIENCES AND PROJECT LIMITATIONS

Potential audiences for this research project include foundation executives that are either currently conducting nonprofit organizational capacity initiatives, as well as foundation executives considering implementing initiatives. In addition, this project aims to reach nonprofit organizations that are currently seeking capacity building support from foundations. Nonprofits can potentially request their funders to examine how capacity building grantmaking could increase the effectiveness of organizations. Many nonprofits could benefit from capacity building support, therefore this paper aims to provide some additional context that can help funders better consider this unique funding model.

The research conducted within this project is focused solely on community foundations within Indiana. Therefore, a limitation of this project is the geographic location in which data is being gathered. While the strengths and challenges of capacity building initiatives will be similar in other geographic locations there is a possibility that the data may not be generalizable due to the location in which the study was conducted. In addition, Indiana has a community foundation within every county across the state and many other states do not have the same community foundation model. Therefore, recommendations found within this study may not be able to be implemented within all communities.

KEY TERMS

The term organizational capacity building, previously defined in the introduction, is used within this paper to describe how nonprofit organizations are using community foundation support to enhance organization capacities. Capacity building will be referred to interchangeably with organizational capacity building, however both terms will mean the same thing unless
otherwise noted. The term community foundation refers to a public charity that provides grant funding, and other support, within a specific geographic area (“community”).

In addition, the goal of capacity building is to increase nonprofit effectiveness. According to Grantmakers for Effective Organization (n.d.a), nonprofit effectiveness is defined as “…the ability of an organization or network to fulfill its mission through a blend of sound management, strong governance, and a persistent dedication to assessing and achieving results” (p. 1).

CHAPTER 2: LITERATURE REVIEW

There are many different types and methods of nonprofit capacity building being utilized by many types of foundations. This literature review presents an overview of community foundations, defines capacity building, highlights types of capacity building, and provides the benefits and challenges of capacity building,

OVERVIEW OF COMMUNITY FOUNDATIONS

According to Eleanor Sacks (2014), “Community foundations are the most identifiable form of structured community philanthropy. They bridge and combine community philanthropy with foundation philanthropy” (p. 2). Franklin (2016) states that “community philanthropy is a combination of two complementary aspects: how we give together in community and how we give to communities we care about”. In addition, Perry and Mazany (2014), “…[C]ommunity foundations…have always defined themselves as institutions of communal good – when all is said and done, the community foundation is the one institution, among all others, that seeks to mobilize the resources of the community to meet the community’s needs” (p. 5).

Community foundations assist donors in giving back to their communities. The number of community foundations has grown over the years. According to the Community Foundation
Atlas (2014), there are more than 1,800 community foundation, referred to as place-based foundations, in the world working to advance efforts on a community level. In the case of Indiana, there are 94 community foundations serving the 92 communities in Indiana (GIFT, 2016). According to the GIFT (Giving Indiana Funds for Tomorrow) 2015 snapshot report, Indiana community foundations manage a little under $3 billion dollars in charitable assets and awarded over $132 million.

CAPACITY BUILDING DEFINED

Capacity building has many definitions, with no official definition being used (Despard, 2016). According to Connolly and Lukas (2002), “The term capacity building refers to the process of strengthening an organization in order to improve its performance and impact” (p. 7). In addition, Connolly and Lukas (2002) adds, “Capacity building refers to activities that strengthen a nonprofit organization and help it better fulfill its mission. These activities include, among others, strategic planning, technology upgrades, operational improvements, and board development” (p. 19). Kibbe defines organizational capacity building as “…the application of knowledge and expertise to the enhancement of those factors that contribute to organization effectiveness. Capacity building focuses on an organization’s skills, systems, structures, and strategies” (p. 5).

This paper uses the definition of the National Council on Nonprofits (n.d.) in regards to capacity building – “Capacity building is an investment in the effectiveness and future sustainability of a nonprofit”. According to the literature, an “investment” generally refers to financial investment, however foundations also have the ability to provide support that is non-monetary such as making connections for an organization or providing expertise (Connolly & Lukas, 2002; Kibbe, 2004; Enright, 2004).
TYPES OF CAPACITY BUILDING

Foundation funded capacity building initiatives can help organizations increase capacity in a variety of areas to increase organizational effectiveness. According to Kibbe (2004), there are four areas that capacity building can focus on:

1. Technical capacity to define, deliver and evaluate programs
2. Management capacity to align policies, processes, and resources with desired outcomes
3. Resource development capacity to assemble adequate physical and human resources as well as a diverse, reliable, and sustainable flow of financial assets
4. Leadership capacity to build support among varied constituencies, participate in social and policy dialogue, and govern the organization in such a way as to continuously renew its position in a changing context

(as cited in Kibbe, 2004, p. 4)

In addition, Grantmakers for Effective Organizations (n.d.b) have identified five common ways grantmakers can support nonprofit capacity:

1. **Unrestricted Support** – General operating grants
2. **Organization Capacity-Building Grants** – Grant support focused on building specific organizational capabilities, such as leadership, fundraising, communications, evaluation, collaborative capacities, and more
3. **Organization Capacity-Building Grants + Technical Assistance** – Grant support plus technical support from consultants or foundation staff that is focused
on building specific organization capacities; can include technical assistance programs, training, organizational assessments and engagements.

4. **Grants to Build Capacity Collectively** – Grants to build the capacity of a group of grantees, networks, or other collaborative efforts, instead of the capacity of individual grantees.

5. **Grants to Technical Service Providers, Intermediaries, or Researchers** – Grants or contracts to build the capacities of capacity-building providers or develop knowledge and practice in the field.

(PP. 1-3)

**BENEFITS OF CAPACITY BUILDING**

Capacity building can assist organizations advance their effectiveness (Connolly & Lukas, 2002; Kibbe, 2004; Liket & Maas, 2013). Various capacities are related to organizational success including mission, vision, and strategy; governance and leadership; program delivery and impact; strategic relationships; resource development; internal operations and management; financial management; communications; and technology (Connolly & Lukas, 2002; GEO, n.d.a).

Capacity building can also help more than just an organization. According to Connolly and Lukas (2002), capacity building causes a ripple effect. By increasing the capacity of an individual, they are able to increase the capacity of an organization, which has the ability to increase the capacity of a community, which has the ability to increase the capacity of a nonprofit sector, which help to improve civil society (Connolly & Lukas, 2002, p. 13). Light (2004) suggests that capacity building can assist an organization in increase its effectiveness, which can garner public confidence which results in discretionary giving and volunteering.
CHALLENGES OF CAPACITY BUILDING

A challenge with nonprofit capacity building is that there is no uniform definition of what it is or how it works. According to Despard (2016), “Although capacity is defined in the nonprofit literature, no standardized measures exist, making it difficult to accurately assess organizational capacity” (p. 1). Light (2004) states “As a term of art, ‘capacity building’ cries out for rigorous measurement. After all, capacity can be contained in organizations and people, imported through education and practice, exported through peer-to-peer learning and rigorous research, and replenished through even more education and practice” (p. 45).

According to Liket and Maas (2013), “In the face of increased accountability pressures, nonprofits are searching for ways to demonstrate their effectiveness. Because meaningful tools to evaluate effectiveness are largely absent, financial ratios are still the main indicators used to approximate it” (p. 268). While financial ratios can give an organization some information regarding organizational effectiveness they do not showcase the full effectiveness of an organization since financial outcomes are not always associated with programmatic success (Liket & Maas, 2013).

While capacity building efforts are well meaning and can be very positive, they are sometimes very challenging to execute and maintain (Enright, 2004). In fact, “…the day-to-day grantmaking practices of many foundations actually undermine the ability of nonprofits to develop the capacity for sustained high performance” (as cited in Enright, 2004). Due to the unique power dynamic of foundations, nonprofits can sometimes interpret a recommendation as a mandate which can cause harm to an organization (Enright, 2004). It is important for funders to realize that its effectiveness is tied to the effectiveness of its grantees, therefore foundations
should work with nonprofit organization to collaboratively develop solutions to increase organizational capacity (Lee, 2004).

Foundations are also faced with the challenge of understanding how their investment works theoretically. “Strategic management theory posits that organizations make purposive decisions to strengthen their responses to changing environments…, which helps explain the capacity-building motive. Resource dependence theory views organizations as striving for growth and sustainability…, which helps explain the importance of strengthening grant writing, contracting, and fundraising efforts” (Despard, 2016, p. 2). In addition, understanding organizational theory (or simply put, how nonprofit organizations function) is something foundations should also consider when considering capacity building programming (Kibbe, 2004).

CONCLUSION

The literature on capacity building is rich, however not very expansive. Scholars have addressed nonprofit effectiveness, however a limited amount of research has been conducted on capacity – an intervention that can increase nonprofit organizational effectiveness. Capacity Building, “…an investment in the effectiveness and future sustainability of a nonprofit” (National Council on Nonprofits, n.d.), is not a new concept, however there are many definitions as to what capacity could be. According to the literature, capacity building is somewhat broad because all nonprofits have different needs in order to enhance their capacities, therefore a one-size-fits-all approach is challenging. Foundations may be conducting capacity building efforts on a small scale, and may even be conducting capacity building without knowing it.
CHAPTER 3: FRAMEWORKS FOR ANALYSIS

Two guiding frameworks are being used within this study - Resource Dependence Theory and Strategic Management Theory. Resource dependence theory examines how external resources affect how an organization operates. In the case of this paper, resource dependence theory will examine how foundation resources (grants) can dictate what nonprofit organizations do. Strategic Management Theory suggests that organizations use goals, initiatives, and measure metrics to reach the overall mission of an organization. In addition, Strategic Management Theory states that organizations use planning mechanisms (i.e. strategic plans, development plans, marketing plans, etc.) to achieve mission related goals.

CHAPTER 4: METHODS AND CONTEXT

The purpose of this study is to examine current practices and initiatives put in place by Indiana community foundations to assist in building organizational capacity within the nonprofit sector. The four main questions that will be researched include: (1) What are community foundations in Indiana currently doing in regards to nonprofit capacity building? (2) What is preventing community foundations in Indiana from implementing capacity building into their grantmaking programs? (3) Are community foundations in Indiana positioned to offer capacity building support? (4) What resources do Indiana community foundations need in order to support nonprofit capacity building?

RESEARCH METHODS

In order to explore the current practices, initiatives, and views of Indiana based community foundations in regards to nonprofit capacity building, an online survey will be distributed to all of the presidents of Indiana community foundations. The survey will use a
mixed methods approach by incorporating both quantitative (amount of annual grantmaking, number of annual grants, number of staff, value of assets, etc.) and qualitative (views on capacity building, resources requests, etc.). By using a mixed methods approach, respondents will have the opportunity to express their opinions through open ended questions (qualitative), as well as provide feedback on issues using questions of measurement (quantitative).

**RESEARCH INSTRUMENTS**

A brief survey with questions using both a qualitative and quantitative approach will be administered to participants. The survey will be fewer than 20 questions in order to encourage community foundation presidents to spend a brief amount of time completing the survey. The survey will be send out via e-mail to Indiana community foundation presidents. The survey will be administered online via Google Forms. A full list of the questions asked with the survey can be found in Appendix A.

**RESEARCH PARTICIPANTS**

Participants for this study will be program officers within Indiana community foundations. These individuals will have access to the information requested in the survey.

**CHAPTER 5: RESULTS**

The purpose of this study was to examine current practices and initiatives put in place by Indiana community foundations to assist in building organizational capacity within the nonprofit sector. The following subsections present how the survey invitation was distributed and provides the findings of the survey:
SURVEY INVITATION

Community foundation participants in this study were contacted with the assistance of the GIFT (Giving Indiana Funds for Tomorrow) through the Indiana Philanthropy Alliance (IPA). GIFT is a signature program of IPA that provides technical assistance to Indiana community foundations through a partnership with the Lilly Endowment. An invitation to participate in this study can be found in Appendix B. The invitation to participate in this survey was distributed through a GIFT listserv. All 94 community foundations within Indiana are on this listserv.

The survey yielded a 26.6% response rate in regards to total community foundations represented (25). Overall, 30 responses were submitted with some community foundations having multiple program officers filling out the survey.

SURVEY RESULTS

The survey was split into multiple sections including an introductory question, community foundation demographics, capacity building activities, community foundation as capacity builder, capacity building resources, and a reflection question. Below are the responses received from the survey placed in the aforementioned categories.

**Introductory Question**

Organizational Capacity Building is defined as "An investment in the effectiveness and future sustainability of a nonprofit". Based on this definition do you believe your community foundation assists in building nonprofit capacity?

<table>
<thead>
<tr>
<th>Response</th>
<th>Total Respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>24</td>
<td>80%</td>
</tr>
<tr>
<td>No</td>
<td>2</td>
<td>6.7%</td>
</tr>
<tr>
<td>Unsure</td>
<td>4</td>
<td>13.3%</td>
</tr>
<tr>
<td>Total:</td>
<td>30</td>
<td>100%</td>
</tr>
</tbody>
</table>
Community Foundation Demographics

Name of Community Foundation

A total of 25 community foundations responded to the survey.

Which county/counties does your community foundation serve?

A total of 28 counties are served by the 25 community foundations that responded to the survey.

What is your community foundation’s asset size in your most recent fiscal year?

<table>
<thead>
<tr>
<th>Asset Size</th>
<th>Number of Respondents</th>
<th>Percentage of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1-5 Million</td>
<td>1</td>
<td>4%</td>
</tr>
<tr>
<td>$5-10 Million</td>
<td>4</td>
<td>16%</td>
</tr>
<tr>
<td>$10-15 Million</td>
<td>3</td>
<td>12%</td>
</tr>
<tr>
<td>$15-20 Million</td>
<td>4</td>
<td>16%</td>
</tr>
<tr>
<td>$20-30 Million</td>
<td>4</td>
<td>16%</td>
</tr>
<tr>
<td>$30-40 Million</td>
<td>2</td>
<td>8%</td>
</tr>
<tr>
<td>$40-50 Million</td>
<td>2</td>
<td>8%</td>
</tr>
<tr>
<td>$50-60 Million</td>
<td>2</td>
<td>8%</td>
</tr>
<tr>
<td>$60+ Million</td>
<td>3</td>
<td>12%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>25</td>
<td>100%</td>
</tr>
</tbody>
</table>

*Data for community foundations with multiple responses is only reported once.

What is your community foundation's percentage of unrestricted assets? (Example: 38%)

<table>
<thead>
<tr>
<th>Unrestricted Assets</th>
<th>Number of Respondents</th>
<th>Percentage of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-10%</td>
<td>2</td>
<td>8%</td>
</tr>
<tr>
<td>10-20%</td>
<td>2</td>
<td>8%</td>
</tr>
<tr>
<td>20-30%</td>
<td>9</td>
<td>36%</td>
</tr>
<tr>
<td>30-40%</td>
<td>9</td>
<td>36%</td>
</tr>
<tr>
<td>40-50%</td>
<td>2</td>
<td>8%</td>
</tr>
<tr>
<td>50-60%</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>60+%</td>
<td>1</td>
<td>4%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>25</td>
<td>100%</td>
</tr>
</tbody>
</table>

*Data for community foundations with multiple responses is only reported once. One respondent was unsure of the total percentage of unrestricted assets.
What is the total dollar amount granted to nonprofit organizations by your community foundation in your most recent fiscal year?

<table>
<thead>
<tr>
<th>Total Grants</th>
<th>Number of Respondents</th>
<th>Percentage of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under $250,000</td>
<td>10</td>
<td>40%</td>
</tr>
<tr>
<td>$250,000 - $500,000</td>
<td>3</td>
<td>12%</td>
</tr>
<tr>
<td>$500,001 - $1,000,000</td>
<td>3</td>
<td>12%</td>
</tr>
<tr>
<td>$1,000,001 - $1,500,000</td>
<td>1</td>
<td>4%</td>
</tr>
<tr>
<td>$1,500,001 - $2,000,000</td>
<td>1</td>
<td>4%</td>
</tr>
<tr>
<td>$2,000,001 - $2,500,000</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>$2,500,001+</td>
<td>7</td>
<td>28%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>25</td>
<td>100%</td>
</tr>
</tbody>
</table>

*Data for community foundations with multiple responses is only reported once.

How many full-time staff members does your community foundation employ?

<table>
<thead>
<tr>
<th>Total Full-Time Employees</th>
<th>Number of Respondents</th>
<th>Percentage of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>3</td>
<td>12%</td>
</tr>
<tr>
<td>2</td>
<td>4</td>
<td>16%</td>
</tr>
<tr>
<td>3</td>
<td>6</td>
<td>24%</td>
</tr>
<tr>
<td>4</td>
<td>1</td>
<td>4%</td>
</tr>
<tr>
<td>5</td>
<td>5</td>
<td>20%</td>
</tr>
<tr>
<td>6</td>
<td>4</td>
<td>16%</td>
</tr>
<tr>
<td>7+</td>
<td>2</td>
<td>8%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>25</td>
<td>100%</td>
</tr>
</tbody>
</table>

*Data for community foundations with multiple responses is only reported once.

What categories do you make the most grants in?
<table>
<thead>
<tr>
<th>Funding Area</th>
<th>Number of Respondents</th>
<th>Percentage of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arts &amp; Culture</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>Community Betterment/Development</td>
<td>7</td>
<td>28%</td>
</tr>
<tr>
<td>Economic Development</td>
<td>1</td>
<td>4%</td>
</tr>
<tr>
<td>Education</td>
<td>8</td>
<td>32%</td>
</tr>
<tr>
<td>Health / Human Services</td>
<td>7</td>
<td>28%</td>
</tr>
<tr>
<td>Other</td>
<td>2</td>
<td>8%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>25</td>
<td>100%</td>
</tr>
</tbody>
</table>

*Data for community foundations with multiple responses is only reported once.

**Capacity Building Activities**

What types of capacity building initiatives, if any, do you provide nonprofits organization in your community?

<table>
<thead>
<tr>
<th>Response</th>
<th>Responses</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Training workshops presented by community foundation staff</td>
<td>11</td>
<td>36.7%</td>
</tr>
<tr>
<td>Training workshops presented by outside individuals</td>
<td>19</td>
<td>63.3%</td>
</tr>
<tr>
<td>Staff consultations with nonprofits</td>
<td>17</td>
<td>56.7%</td>
</tr>
<tr>
<td>Regular convenings of special groups within the nonprofit sector</td>
<td>17</td>
<td>56.7%</td>
</tr>
<tr>
<td>We do not currently conduct any capacity building initiatives</td>
<td>5</td>
<td>16.7%</td>
</tr>
<tr>
<td>Other</td>
<td>4</td>
<td>13.3%</td>
</tr>
</tbody>
</table>
Other: Training for board members, matching donations into agency endowments, program related investments; 2:1 endowment matches, 1:1 endowment building, Board Governance Training; Nonprofit Leadership Retreat, Certificate Programs, Complimentary Books, Underwriting staff conference fees; Funders Group Luncheons, fund local nonprofit resource center.

What types of capacity building grants do you provide nonprofit organizations in your community?

<table>
<thead>
<tr>
<th>Capacity Building Grants Type</th>
<th>Responses</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrestricted Grant Support</td>
<td>17</td>
<td>56.7%</td>
</tr>
<tr>
<td>Organization Capacity-Building Grants</td>
<td>11</td>
<td>36.7%</td>
</tr>
<tr>
<td>Technical Assistance Grants</td>
<td>16</td>
<td>53.3%</td>
</tr>
<tr>
<td>Grants to Technical Service Providers</td>
<td>6</td>
<td>20%</td>
</tr>
<tr>
<td>We do not currently make these types of grants</td>
<td>6</td>
<td>20%</td>
</tr>
<tr>
<td>Other</td>
<td>4</td>
<td>13.3%</td>
</tr>
</tbody>
</table>

Other: Special Endowment Matching Grants; Professional Development Grants and Capital Purchase Grants; Project Grants; Succession Planning and Conference Fees

Community Foundation as Capacity Builder

What are some challenges of capacity building? (Challenges that you are facing as a community foundation that is conducting capacity building, or as a community foundation that has considered it)

<table>
<thead>
<tr>
<th>Challenge of Capacity Building</th>
<th>Responses</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>The community foundation does not want to appear as though it is prescribing changes to organizations</td>
<td>17</td>
<td>56.7%</td>
</tr>
<tr>
<td>Staff lack the expertise in nonprofit management to assist organizations in building capacity</td>
<td>4</td>
<td>13.3%</td>
</tr>
<tr>
<td>The community foundation lacks the financial resources needed to provide capacity building support to nonprofit organizations</td>
<td>10</td>
<td>33.3%</td>
</tr>
<tr>
<td>The community foundation lacks the staff resources needed to provide capacity building support to nonprofit organizations</td>
<td>13</td>
<td>43.3%</td>
</tr>
</tbody>
</table>

Capacity Building Resources

In order to begin providing capacity building, or enhancing what you currently have offered, what types of support could your community foundation benefit from?
<table>
<thead>
<tr>
<th>Capacity Building Resources</th>
<th>Responses</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Training workshops/webinars on nonprofit capacity building</td>
<td>17</td>
<td>56.7%</td>
</tr>
<tr>
<td>Case studies of Indiana community foundations providing capacity building support</td>
<td>17</td>
<td>56.7%</td>
</tr>
<tr>
<td>Templates for capacity building grants</td>
<td>20</td>
<td>66.7%</td>
</tr>
<tr>
<td>Guidance on the most helpful type of capacity building support for nonprofits</td>
<td>23</td>
<td>76.7%</td>
</tr>
<tr>
<td>How to determine the impact of capacity building grants</td>
<td>19</td>
<td>63.3%</td>
</tr>
<tr>
<td>Other</td>
<td>2</td>
<td>6.7%</td>
</tr>
</tbody>
</table>

Other: Ways to encourage our nonprofits to participate in all the support we are currently offering; We have partnered in the past on the Northeast Indiana Nonprofit Resource Center to hold workshops in our county and would do so again if local nonprofits requested training and support.

**Reflection**

After completing this survey, do you believe your community foundation assists in building nonprofit capacity?

<table>
<thead>
<tr>
<th>Response</th>
<th>Total Respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>22</td>
<td>73.3%</td>
</tr>
<tr>
<td>No</td>
<td>5</td>
<td>16.7%</td>
</tr>
<tr>
<td>Unsure</td>
<td>3</td>
<td>10%</td>
</tr>
<tr>
<td>Total:</td>
<td>30</td>
<td>100%</td>
</tr>
</tbody>
</table>

**CHAPTER 6: ANALYSIS**

Indiana is a very unique state in that it has 94 community foundations. Many states have a limited number of community foundations that serve multiple counties in the state, however in Indiana community is generally defined as the county you live in, and Indiana happens to have 92 counties. There are a few community foundations that serve multiple counties based on some populations and other counties have more than one community foundation based on local dynamics.

The survey yielded a total of 30 responses from 25 different community foundations in Indiana. The 25 communities foundation surveyed serve a total of 28 counties in Indiana, and
they are very different in size and community funding priorities. A majority of the community foundations have a relative small amount of assets, with approximately half of the respondents (48%) reporting that the community foundation they work for holds under $20 million in assets. The size of an endowment with $20 million would only render $800,000 a year for grantmaking based on a 4 percent spend policy, which does not give grantmakers a lot of room to implement capacity building when the community foundations are tasked with meeting other community needs.

It is assumed that many community foundation do not hold capacity building funds within their endowment, therefore community foundations are often using unrestricted dollars to fund capacity building initiatives. In the case of the community foundations represented in this study, almost all of the community foundation (24/25) reported that unrestricted assets with the foundation were under 50%, which means that many of the dollars within the community foundation are already accounted for in other types of funds (e.g. donor-advised, field of interest, agency endowments, etc.). A little over half of the participating community foundation (52%) reported that their unrestricted funds were under 30 percent. If community foundations do not have operating endowments, funds for operating expenses are usually take from unrestricted funds, which lessens the funds available for capacity building even more.

Organizational capacity building can be very expensive for an organization, especially when organizations are hiring outside consulting firms, hosting speaker series, or providing unrestricted grants to assist organizations in addressing an organizational capacity with the goal of achieving higher programmatic success. Fifty-two percent of the respondents reported that they made less than $500,000 in annual grants, which supports that there is not enough funds available to pursue organizational capacity building efforts, or at least not major efforts.
When asked about the types of capacity building initiatives that their community foundations offered, respondents provided answers that were very surprising, especially since many of the responses of “other” included a variety of examples that are generally not considered organizational capacity building, which lends to a larger issue within the field of community philanthropy in Indiana. The organizational capacity building initiative types that at least 50% of community foundations implemented included – Training workshops presented by outside individuals; Staff consultations with nonprofits; and regular convening of special groups within the nonprofit sector.

In regards to the responses of “other”, it is apparent that many respondents (i.e. many community foundations) are confused on what organizational capacity actually represents. In regards to the first question, 80 percent of respondents reported that they had capacity building grants and/or initiatives within their community foundation, however many community foundations reports items that are not considered organizational capacity building within the survey. Items such as endowment building campaigns, funder’s luncheons, or supporting the local nonprofit resource center are not necessarily organizational capacity building initiatives. The definition of organizational capacity building is “An investment in the effectiveness and future sustainability of a nonprofit” (Despard, 2016, p. 1). While encouraging organizations to grow their endowments to support future expenses is an excellent idea to increase organizational sustainability, the organization has not necessarily developed a skill or improved an internal process while working on a matching challenge.

When beginning the survey, 80 percent of respondents (24 individuals) reported that they believed that their community foundation provide organizational capacity building grants and/or initiatives. 17 of the 30 (56.7%) respondents reported that the community foundation offered
unrestricted grant support (operating grants), and 16 respondents (53.3%) reported that their foundations provided technical assistance grants. It is surprising that this number is not higher since these types of capacity building grants are more common than other types, therefore many organizations may be unsure of the type of organizational capacity building being offered by community foundations. In addition, it is unsure whether or not community foundations actually know whether or not they offer capacity building and are just abusing the term since it is a popular “buzz word” in philanthropy.

In regards to why community foundations are not providing organizational capacity building support to nonprofit organizations, a majority of community foundations reported that staff knowledge or finances are not an issue, but lack of staff resources needed is the major issue. Over half of respondents (56.7%) also reported that one of the challenges with organizational capacity building is that the foundation does not want to appear as though it is prescribing changes to organizations. Organizational capacity building is about empowering organizations to make positive changes to increase effectiveness, not change processes for the sake of change. It would be inappropriate for a community foundation to tell an organization how to manage its work, however it would be appropriate for a community foundation to provide funding or other assistance for an organization that has identified something it would like to enhance to increase organizational effectiveness.

Utilizing the frameworks presented within chapter three, resource dependence theory and strategic management theory, the data makes it clear that Indiana community foundations need additional training on organizational capacity building and how to implemented best practices. Resource dependency theory would suggest that organizational capacity building would be in the best interest of community foundations since it would assist organizations in becoming more
self-sufficient by increasing capacity. In addition, foundations could potentially decrease grant support to organizations, or encourage funding diversification by increase the capacity of grantees. Strategic management theory would suggest that community foundations would ideally want to support organizations that are working to implement organizational strategies that assist the organization in advancing its mission.

There is much to be done in the area of capacity building in Indiana, and this is very apparent as over half of all respondents stated that they wanted each of the capacity building resources listed in the survey - Training workshops/webinars on nonprofit capacity building; Case studies of Indiana community foundations providing capacity building support; Templates for capacity building grants; Guidance on the most helpful type of capacity building support for nonprofits; How to determine the impact of capacity building grants. Overall, a majority (76.7%) of respondents mentioned that they would like guidance on how to provide capacity building support for nonprofits. This responses further illustrates that community foundations in Indiana may not necessarily know how to provide adequate support to organizations seeking organizational capacity building support.

CHAPTER 7: RECOMMENDATIONS AND CONCLUSIONS

The purpose of this study was to examine current practices and initiatives put in place by Indiana community foundations to assist in building organizational capacity within the nonprofit sector. For the original research portion of this study, surveys were administered to community foundation program officers. Through the surveys conducted, it was clear to see that some community foundations are offering organizational capacity building grants and initiatives; however there is still much to be done in order to make these grants and initiatives effective for
both the community foundations and nonprofit organizations. The following recommendations provide some options for addressing the issues found within this study:

**Recommendation #1: Conduct a larger study.** Conduct a larger study that has a higher response rate from Indiana community foundations. In addition, expand the study to additional state to see if the responses would be similar.

**Recommendation #2: Create resources for organizational capacity building grants.** Work with the Indiana Philanthropy Alliance, and other regional associations, to create additional resources for foundations (all types) to implement successful organizational capacity building grant programs.

**Recommendation #3: Create training workshops on organizational capacity building grants and initiatives.** Develop workshops that will help grantmakers comprehend organizational capacity building grants and initiatives.

Each of these recommendations will be expanded on in the next section.

**RECOMMENDATION EXPLANATIONS**

**Recommendation #1: Conduct a larger study**

The response rate for this study represented a little over one-fourth of Indiana community foundation; therefore, it would be ideal for another study to be conducted in order to determine if the conclusions of this study apply to a majority of community foundations in Indiana. In addition, since Indiana is very unique in the number of community foundations it would be ideal to conduct a study that included additional states. The only state that is similar to Indiana in regards to the number of community foundations is Michigan, but other than Michigan many states have a less than 10 community foundations. Therefore, the ability to provide
organizational capacity building may differ in other states that have larger community foundations, both geographically and in asset size.

**Recommendation #2: Create resources for organizational capacity building grants**

Many respondents in the study reported that they would like templates for capacity building grants. Since Indiana is very uncommon in the way community foundations function, custom templates may need to be created in order to accommodate foundations that do not have a large number of assets, nor a large percentage of unrestricted assets. Having additional resources available for community foundations that have the two aforementioned restrictions would allow them to make progress towards enhancing the local nonprofit sector, especially since capacity building can be very expensive for a foundation to undertake.

**Recommendation #3: Create training workshops on organizational capacity building grants and initiatives.**

Many respondents reported that they could use some additional training on organizational capacity building, which would be beneficial since many respondents appeared to not fully understand the concept. Having additional training, and resources, would be beneficial for community foundations to implement organizational capacity building grants and initiatives. Having a better understanding of various types of organizational capacity building would assist community foundation in offering support that is beneficial for nonprofits. Many organizations are offering training workshops for nonprofits in the community, but there could potentially be more effective ways that could assist organization’s in addressing organizational capacity needs.
REFERENCES


APPENDIX A
Surveys Questions for Community Foundations

Capacity Building Self-Assessment:

1. Organizational Capacity Building is defined as "An investment in the effectiveness and future sustainability of a nonprofit". Based on this definition do you believe your community foundation assists in building nonprofit capacity?
   a. Yes
   b. No
   c. Unsure

Community Foundation Demographics:

1. What is the name of your community foundation? (Example: Smith County Community Foundation)
2. Which county/counties does your community foundation serve? (Example: Smith County, Smith & Jackson Counties, etc.)
3. What is your community foundation’s asset size in your most recent fiscal year? (Example: $14.5 Million)
4. What is your community foundation's percentage of unrestricted assets? (Example: 38%)
5. What is the total dollar amount granted to nonprofit organizations by your community foundation in your most recent fiscal year? (Example: $524,375)
6. How many full-time staff members does your community foundation employ? (Example: 4)
7. Which categories do you make the most grants in?
   a. Arts & Culture
   b. Community Betterment/Development
   c. Economic Development
   d. Education
   e. Health / Human Services
   f. Other

Capacity Building Activities:

1. What types of capacity building initiatives, if any, do you provide nonprofits organization in your community? (please check all that apply)
   a. Training workshops presented by community foundation staff
   b. Training workshops presented by outside individuals
   c. Staff consultations with nonprofits (e.g. providing feedback on strategic plans, assisting with the development of fundraising plans, etc.)
   d. Regular convenings of special groups within the nonprofit sectors (e.g. executive director lunches, fundraising roundtables, etc.)
   e. We do not currently conduct any capacity building initiatives
   f. Other (please specify)
2. What types of capacity building grants do you provide nonprofit organizations in your community? (please check all that apply)
   a. Unrestricted Grant Support – (e.g. general operating grants)
b. Organization Capacity-Building Grants (e.g. building leadership, fundraising abilities, communication capacity, and evaluation knowledge)
c. Technical Assistance Grants (e.g. organizations requesting funds to hire a consultant to assist with specific projects and/or programs).
d. Grants to Technical Service Providers and/or Researchers (e.g. Indiana Youth Institute, Indiana Nonprofit Resource Network, etc.)
e. We do not currently make any types of these grants
f. Other (please specify)

Community Foundation as Capacity Builder:

1. What are some challenges of capacity building? (Challenges that you are facing as a community foundation that is conducting capacity building, or as a community foundation that has considered it)
   a. The community foundation does not want to appear as though it is prescribing changes to organizations
   b. Staff lack the expertise in nonprofit management to assist organizations in building capacity
   c. The community foundations lacks the financial resources needed to provide capacity building support to nonprofit organizations
   d. The community foundations lack the staff resources needed to provide capacity building support to nonprofit organizations

Resources Needed:

1. In order to begin providing capacity building, or enhancing what you currently have offered, what types of support could your community foundation benefit from?
   a. Training workshops/webinars on nonprofit capacity building
   b. Case studies of Indiana community foundations providing capacity building support
   c. Templates for capacity building grants
   d. Guidance on the most helpful type of capacity building support for nonprofits
   e. How to determine the impact of capacity building grants
   f. Other (please specify)

Reflection:

1. Organizational Capacity Building is defined as "An investment in the effectiveness and future sustainability of a nonprofit". After completing this survey, do you believe your community foundation assists in building nonprofit capacity?
   a. Yes
   b. No
   c. Unsure
APPENDIX B
Invitation to Community Foundation Program Officers

Hello Community Foundation Leaders,

My name is Colton Strawser and I am a Program Officer with The Community Foundation of Muncie & Delaware County. I am currently working on completing my M.S. in Nonprofit Management & Philanthropy at Bay Path University and I need your help.

I am writing about community foundations for my thesis, and I am requesting that you complete a 5-8 minute survey regarding your community foundation and organizational capacity building. My thesis, titled “Community Foundations as Capacity Builders: An Examination of How Community Foundation Are Enhancing the Nonprofit Sector”, is looking to discover how many community foundations in Indiana are currently offering organizational capacity building support to nonprofits, how community foundations are conducting organizational capacity building efforts, and what is needed to move organizational capacity building initiatives forward in the state.

Capacity is much more than grantmaking, so with that in mind I kindly ask that you take a few minutes of your time to fill out my survey. My goal is to have at least 50% of Indiana community foundations complete the survey, and I hope that you will help me achieve that goal.

Survey - https://goo.gl/forms/I9RFOSXJ3wQ2JBQg2

If you have any questions about my research, please feel free to send me an e-mail directly at cstrawser@baypath.edu.

Thank you in advance for your time and participation,

Colton C. Strawser