

Building to Grow: Internal Capacity Building for Small Foundations

Thomas E. Backer, PhD, Human Interaction Research Institute

September 2006

Much of the recent attention to how philanthropy can contribute to community change has focused on large, well-staffed foundations. According to the Foundation Center, in 2005 only about 275 of the more than 20,000 U.S. foundations with \$1 million or more in assets had staffs of ten or more. Most of the nation's 68,000 foundations have no paid staff.

But small foundations (those with two or fewer full-time employees, as defined by the Association for Small Foundations) also can play a vital role in helping communities deal with challenges such as improving outcomes for vulnerable children and families – through grantmaking and other activities. To have the most impact, however, these small foundations may need to improve their internal capacity (through training and technical assistance for trustees, hiring and training of staff, enhancing facilities and back office operations, etc.).

This may be especially true when certain changes occur in their circumstances, such as a significant increase in assets. Frequently these changes are internal, but sometimes they come from larger developments in the community, such as responding to increased government regulation of foundations at the state or national levels.

As the field of philanthropy professionalizes, new options emerge for this “ramping up” of

internal capacity, both for small and large American foundations. Learning about and implementing some of these options can significantly increase philanthropic performance.

To understand better the process of internal capacity building for small foundations, this exploratory study focused on two questions:

- * *What “trigger points” cause small foundations to “ramp up” their internal capacity significantly over what it was before?*
- * *What are some strategies small foundations can use to build internal capacity?*

After finding very little literature addressing either of these questions, the study focused on interviews with staff and trustees of small foundations, along with some thought leaders in philanthropy (the list of interviewees is at the end).

Building to Grow presents what was learned from these interviews. It is a companion piece to three other recent papers on capacity building for smaller foundations (Backer, 2004a, b; Sampson, 2004). All four papers were commissioned by Annie E. Casey Foundation, as part of its strategic efforts to promote collaboration and co-investment by foundations and individual donors in the work of community change – particularly in the sites of Casey’s Making Connections initiative.

Collectively these papers represent a different “take” on capacity building. When this topic is mentioned, most foundation staff and trustees think of their efforts to strengthen nonprofits in their communities of interest. These efforts include grantmaking and direct services to nonprofits. Nearly 400 such programs of foundations across the country are profiled in the online Philanthropic Capacity Building Resources database.

But small foundations themselves have many of the same needs for strengthening as the nonprofits they fund – developing a system to evaluate their performance, building skills of staff and board members, enhancing physical and technology infrastructure, improving financial management or strategic planning systems, etc. As the results of this study make clear, small foundations often do not have as many resources to turn to as do their nonprofit counterparts in the community – even though, from a legal standpoint, foundations also are nonprofit organizations! Findings from this exploratory study may be of value to trustees and staff of small foundations (and groups serving them), as they consider whether and how to build internal capacity.

Context

Small foundations build capacity for two major reasons. First is to *increase their effectiveness* - strong, well-organized foundations are more likely to fulfill their philanthropic missions. And like their large-foundation counterparts, small foundations today are subject to both internal and external pressures to become more effective. Calls for oversight and regulation are coming from outside, adding to the pressure trustees and staff feel internally.

Public policy questions have even been raised about whether foundations below a certain

asset level should be allowed to incorporate, because of concerns about their ability to have impact, given their small size. These concerns might be alleviated by small foundations making more strategic efforts to build internal capacity, thus increasing their ability to contribute to the community.

The second reason small foundations build internal capacity is to *increase their efficiency*. Expenses as a percentage of assets are a factor limiting foundation efficiency. At below \$5 million this percentage starts to rise, and below \$2.5 million it rises substantially. Anything that can be done to reduce administrative expenses, such as increasing operating efficiency, makes this less of a problem.

Most resources for capacity building are focused on nonprofits (Backer, Bleeg & Groves, 2004), or on larger foundations. The latter include membership services offered by the Council on Foundations and its various affinity groups, including regional associations of grantmakers; and subject-focused groups such as Grantmakers for Effective Organizations, which concentrates on nonprofit capacity building. A few are focused on individual staff of grantmakers, such as GrantCraft, or on individual donors, such as Social Venture Partners. These resources also can be useful to small foundations when they decide to build internal capacity (and in some cases, as with the Family Foundations division of the Council, there's an explicit focus on smaller grantmakers).

The Association for Small Foundations and the National Center for Family Philanthropy are among the few national organizations providing capacity-building support aimed primarily at trustees and staff of small foundations. This support includes learning experiences offered at conferences, and materials available both in print and online formats.

Trigger Points for Capacity Building

Interviewees suggested “trigger points” that motivate small foundations to significantly ramp up their capacity. These are often “action-forcing” events – something happens or trustees decide to do something differently, and from that point on the ramping up is not entirely voluntary. This sometimes may be a source of inefficiency, due to lack of advance planning or internal resistance to the ramping up. Still, these events, however they occur, can serve as positive motivators for internal capacity building by small foundations.

Among the main “trigger points” identified by interviewees in this study were:

* ***shift in leadership*** - a founder passing away and creating a family succession is the #1 trigger point interviewees identified. This may have complex dimensions; often the generation of donors that made the money are also civic leaders and know what they want to do, who is worthy in the community and who is not. When the second generation comes in, they don’t have always the same connections to community – though they may have a more sophisticated view of philanthropy.

This leadership shift can lead to ramping up of foundation capacity because the new leaders need help in their philanthropic work, and also because they understand more what are the advantages of getting that help. They have attended conferences, read philanthropic literature and talked with fellow philanthropists about what other foundations are doing. This of course may happen with the first generation as well, but it is more likely with the second generation of leaders, according to those interviewed.

Even when the founder is still alive and engaged in the foundation, there may be a planful decision to engage the next

generation, e.g., by bringing younger family members onto a foundation board. This too can result in some ramping up of capacity. So can transitions in the foundation’s board chair or executive director position. According to some of those interviewed, often the addition of a single new person to a foundation’s board can result in substantial change, including efforts to increase internal capacity.

* ***capital infusion*** - related and the second most common “trigger point” is an influx of assets, often from the sale of a donor’s business, settling of a donor’s estate, or a related change in the donor’s financial status.

* ***research*** - sometimes the drive to “ramp up” emerges from a study, formal or informal, about what other foundations are doing either in their basic philanthropic strategy (which means ramping up to model the observed approaches, which may be seen as benchmarks for good philanthropic performance), or in more technical efforts to build capacity (e.g., seeing another foundation buying software for grants management and being pleased with the results). Such studies may be conducted by staff, trustees or an outside consultant.

* ***shift in subject focus*** - when a foundation’s trustees or staff adopt a new focus (school reform, health services for the elderly, etc.) for the foundation’s grantmaking, that change may require increasing internal capacity, to revise grantmaking procedures and other aspects of the foundation’s operation, especially if one result is going to be an increased amount of grantmaking (e.g., shifting from making several large grants each to year to awarding a number of smaller ones).

Sometimes this new focus may occur in response to an outside event. For instance, a medical breakthrough may lead to new kinds of treatment that a foundation focused on a particular health issue may wish to support –

but can't unless trustees understand the implications of the breakthrough, and staff learn about what kinds of grants to which institutions are now needed.

* ***donor retirement*** - when a donor retires, time to focus on the foundation may be available that wasn't there before, and result in a push for internal strengthening, simply because the shortcomings of the existing infrastructure may be more clearly observed.

* ***geographical change*** - reflecting the "natural migration tendencies" of Americans, some family members involved in a small foundation may move to a new location, and want to have some philanthropic activity in their new communities. This may require new capacity to undertake grantmaking and other activities in these new environments. Technology can help, but staffing up, creation of local advisory committees, and other steps may need to be taken as well.

* ***strategic review by trustees or staff*** - sometimes the impetus for internal capacity building can come from trustees or staff who review what a foundation has accomplished in some period of time (for instance, in its first five years of grantmaking). They may come to the conclusion that the goals are still valid, but that the foundation's operations need strengthening to continue meeting these goals.

* ***peer networking*** - either through informal conversations or participation in more structured philanthropic learning groups, trustees and staff may be inspired to build capacity through their interactions with peers. Learning groups often are focused explicitly on helping members build capacity for their foundations, through sharing of challenges and potential solutions, plus opportunities for strengthening through collaboration (Backer, 2006).

* ***foundation sunset*** - if a foundation has been created with a time limit on its period of operation, that may force ramping up internal capacity in order to spend down assets by the time of its "sunset."

* ***business perspective*** - particularly when trustees or staff come from a business background, they may push for internal capacity building of their foundation because they know that a business would be investing in building infrastructure, and they urge treating the foundation in a businesslike way. This may be particularly likely if the foundation is growing, making a more businesslike approach essential to cope successfully with increased activity level.

* ***failure*** - if the overall philanthropic strategy a foundation has been pursuing simply doesn't work, trustees and staff may push for a new mandate. The failure may also be at a more technical level, in the management approaches a foundation has been using, e.g., due diligence methods that turn out not to be effective. In either case, a major change in direction is very likely to require increasing internal capacity, as well as possible changes in staff, infrastructure, and so forth.

* ***larger events in philanthropy*** - a small foundation's staff and trustees may need to build capacity in response to developments in the field of philanthropy, such as new federal or state regulations for foundations. Another example is Warren Buffett's decision to give a large portion of his fortune to an existing foundation. If this event leads other donors to do the same, some small foundations may suddenly have a major increase in assets, requiring them to ramp up.

Trustees and staff sometimes may hesitate to take action as a result of any of these triggers. Capacity building takes resources, and for a small foundation this may be a serious fiscal

issue. Donors may be afraid they'll lose the "personal touch" their foundation has had for them and for the community when it becomes more bureaucratic and hires staff.

Hiring an executive director, even as a part-time employee or consultant, can be threatening to the first generation of donors who've been "doing it themselves." They may have a "horrible vision of a philanthropoid dismantling what they've spent so much time and energy building up," to use the words of one interviewee.

The first hire for a small foundation's staff is particularly critical. This individual must be able to work both with the donor and family trustees. There is a delicate balance between professionalization and family control. Sometimes trustees aren't really willing to let go of control, and may hire staff, only to discharge them later because of these control issues.

Finally, foundations have organizational life cycles, just as does any other kind of organization. Understanding where a foundation is in its life cycle can have a real bearing on selecting strategies for responding to the trigger points discussed here. A very young foundation, for instance, may have great flexibility because it is new and doesn't have a large backlog of customs and experience; but it may also be less resilient for the same reason.

Strategies for Building Capacity

Interviewees also suggested strategies they have found useful for increasing the capacities of small foundations:

* ***setting up internal infrastructure*** such as an audit committee or an investment committee. This step may also require recruiting one or more new trustees, who

bring with them skill sets not already on the board – a kind of "instant capacity building"! In many instances, for family foundations this means for the first time going beyond the family to select trustees.

* ***creating an advisory committee*** to get input about a particular area of interest (e.g., a scientific committee if there is an issue of science around which a grantmaking initiative centers), or to get stakeholder involvement from a community of interest.

* ***reaching out to a community foundation*** for general advice; if a small foundation gets converted into a donor advised fund attached to a community foundation, it can then draw directly on the community foundation's resources for capacity building.

* ***relying on a trusted advisor*** to help in the ramping up process - private bankers, accountants, trust attorneys, wealth managers and philanthropic advisors are among the professionals who often are called in to help a donor or family decide about starting up a foundation, and about how to structure and improve it as it grows.

* ***hiring a consultant on capacity building*** to assist both in defining what kinds of internal capacity building may be needed, and in identifying the external resources (readings, conferences, training programs, etc.) that are required to bring about the desired strengthening of the foundation.

* ***collaborating on funding or operations*** to provide opportunities for a small foundation to derive capacity from one or more partner foundations (Backer, 2004b). Sometimes the best way to quickly increase capacity is to attach a small foundation's grant to a much bigger grant or grant initiative of a larger foundation, through a funder collaborative of some sort. Infrastructure can be "purchased" through such an arrangement, and of course

there also is an opportunity for learning by being associated with the larger foundation's enterprise. In fact, collaborations of all types can provide opportunities for learning by small foundations (either with each other or with larger foundations).

***purchasing software** for grants management or investment management, to permit the foundation to do more in-house, with the greater efficiency such software can provide.

***joining a learning group** such as the Family Foundation Information Exchange in Los Angeles (a group of about 20 local family foundations whose donors and staff meet for breakfast, to discuss how to be better grantmakers; see Backer, 2006), or national groups like the Wealth and Giving Forum.

***making a first hire for the foundation's staff**, such as for a part-time executive director. This may include hiring a consultant who has previously worked with the foundation in a developmental capacity. Such a part-time hire provides a lower-cost way to increase internal infrastructure, and also to determine whether hired staff is a direction that works for a particular foundation.

This option might also involve a family member moving into a paid position after being a volunteer trustee. Sometimes these part-time staff morph into full-time permanent employees as the foundation grows.

***sharing staff among several foundations** which can be feasible if there is a friendly relationship among the foundations involved.

***outsourcing back office functions**, often through contracts with consultants and consulting firms that provide back office services related to grantmaking, investment and other aspects of operating a small foundation. These services can expand capacity without the need for more employees

or more office space. Sometimes the consulting firm can actually run the foundation, with the consultant serving as executive director.

***joining professional associations** such as the Association for Small Foundations or the National Center for Family Philanthropy. Other possibilities include the Council on Foundations (especially its Family Foundations division) and regional associations of grantmakers – though there were some differences of opinion among interviewees about how much help some of these groups, oriented to larger foundations, can actually provide. A conservative approach, which would apply to any association, might begin by reviewing website information and publications of the group, then attending a conference or networking meeting, and making a decision about membership based on the relevance of the group to a particular foundation's needs.

Several interviewees also pointed out that in addition to these national associations and their regional affiliates, a number of other resources exist for training and technical assistance. These range from training programs for foundation staff offered by university-based centers like the Johnson Center at Grand Valley State University, to the services of philanthropic advisory groups such as The Philanthropic Initiative or IFF Advisors.

***using technology creatively**, such as making foundation information, grant applications and other materials available on a small foundation's website.

***narrowing the focus** of the foundation, by looking carefully at its mission and then more tightly defining how to accomplish it. This can lead to better use of energies as well as funds, and constitutes a kind of indirect capacity building, according to several interviewees.

Next Steps: Integrating Resources for Small Foundations with the Field of Nonprofit Capacity Building

Aside from what foundations can do within the boundaries of philanthropy, and from their own internal efforts, there may be opportunities in the communities in which they live to interact with local nonprofit capacity-building providers. There is a whole infrastructure for nonprofit capacity building in the U.S. (Backer & Barbell, 2004). Many larger cities have both management service organizations (a premier example nationally is CompassPoint in San Francisco) that offer “one stop shopping” services for capacity building. Both cities and smaller communities have independent consultants, local universities, and other resources for capacity building.

National organizations like the Alliance for Nonprofit Management can help provide contacts with these resources. Even in smaller towns, there are likely to be some such resources available. Trustees and staff of other foundations also can be important referral sources, especially in smaller communities that have less infrastructure for nonprofit capacity building.

The “trigger points” and strategies identified here can provide the basis for an initial discussion among trustees and staff of a smaller foundation about whether to ramp up internal capacity, and how to do so if needed. Sometimes the whole capacity building process can be facilitated by an outside consultant who helps the foundation think about how to build the infrastructure needed to achieve its philanthropic mission.

But several interviewees noted that because many donors come from a business background, they may elect a “do-learn-do” approach more than extensive planning and preparation for building their internal

capacity. If they decide more capacity is needed, and alternatives for doing so are identified, these more pro-active foundations will implement a “first-cut” set of activities, observe how they work, and then adjust as they move along.

References

- Backer, T.E. (2006). *Nurturing high-impact philanthropists: Learning groups for donors and small foundations*. Encino, CA: Human Interaction Research Institute.
- Backer, T.E. (2004). *Capacity building for smaller foundations: Shoes for the cobbler's children*. Baltimore: Annie E. Casey Foundation. (a)
- Backer, T.E. (2004). *Collaboration approaches for smaller foundations: Partnering to focus on results for communities*. Baltimore: Annie E. Casey Foundation. (b)
- Backer, T.E., Bleeg, J.E. & Groves, K. (2004). *The expanding universe: New directions in nonprofit capacity building*. Washington, DC: Alliance for Nonprofit Management.
- Backer, T.E. & Barbell, I. (2004). Models for local infrastructure. *The Nonprofit Quarterly*, 12, Special Issue, 50-56.
- Sampson, A. (2004). *Capacity building for smaller foundations: Making an investment in ourselves*. Baltimore: Annie E. Casey Foundation.

Acknowledgments

The author thanks all those who participated as interviewees in this study:

Rayna Aylward, Mitsubishi Electric of America Foundation
Jason Born, The Philanthropic Initiative
Wendy Chang, Dwight Stuart Youth Foundation
Rob Collier, Council of Michigan Foundations
Tom Cook, Cook Family Foundation
Lee Draper, Draper Consulting Group
Chris Eberhardt, Colburn Foundation
Kathleen Enright, Grantmakers for Effective Organizations
Bill Graustein, William C. Graustein Memorial Fund
Ralph Hamilton, Chapin Hall
Jan Jaffe, Grantcraft/Ford Foundation
Jan Kern, Family Foundation Information Exchange
Lauren LeRoy, Grantmakers in Health
Terry Meersman, Talaris Research Institute
Maria Mojica, William C. Graustein Memorial Fund
David Nee, William C. Graustein Memorial Fund
Betsy Nelson, Association of Baltimore Area Grantmakers
Joel Orosz, Dorothy A. Johnson Center
Patti Patrizi, Patrizi Associates
Leslie Pine, The Philanthropic Initiative
Ellen Remmer, The Philanthropic Initiative
Shirley Sagawa, Sagawa-Jospin
Allison Sampson, Colburn Foundation
Paul Shoemaker, Social Venture Partners Seattle
Jennifer Vanica, Jacobs Family Foundation
Tim Walter, Association of Small Foundations
Eileen Wilhem, formerly of Wachovia Foundation

Members of the Family Foundation Information Exchange (FFIX) in Los Angeles also contributed, both individually and collectively, to this study. Thanks are given to Jan Kern, FFIX coordinator, for her input and assistance.

Funding support for the study was provided by the *Annie E. Casey Foundation* (Ira Barbell, program officer, also contributed helpfully to this report).

To obtain copies of publications cited, or to access the fully searchable Philanthropic Capacity Building Resources database free of charge, visit www.humaninteract.org.