



**Exploring Foundation Financial Investments  
in Nonprofit Capacity Building**

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Nonprofits and their funders always have invested in capacity building. For the last 15 years, however, foundations have been making larger and more strategic financial investments, through grantmaking and other approaches (DeVita & Fleming, 2001; Backer, Bleeg & Groves, 2004). A national, regional and local infrastructure, also significantly funded by foundations, has sprung up to support these activities (*Nonprofit Quarterly*, 2004; Backer & Barbell, 2004).

The Human Interaction Research Institute has studied foundation capacity-building programs for many years (Backer, 2001). Its Philanthropic Capacity Building Resources (PCBR) database contains 368 grantmaking and direct service programs, along with profiles of 21 intermediary organizations, started or funded partly by foundations, that do capacity building. Others also have documented growth in this field – and have noted a 2002 funding downturn, likely due both to overall reductions in foundation giving and to several national foundations ending major initiatives (Blumenthal, 2003; Connolly, 2005; Connolly & Lukas, 2002; Grantmakers for Effective Organizations, 2004; Kibbe, 2004a,b; Kinsey, Raker & Wagner, 2003; Light, 2004; Light & Hubbard, 2004).

To make good decisions about future financial investments in capacity building, foundations and the nonprofit sector need up-to-date answers to questions such as:

- (1) What **overall investments** have foundations been making recently, using both narrow and broad definitions of capacity building?
- (2) What investments are foundations making in **direct services** they themselves offer to nonprofits?
- (3) What investments are foundations making to support **infrastructure organizations** involved with capacity building?
- (4) What investments are foundations making to fund **evaluation** of capacity building?
- (5) What investments are foundations making in **administrative expenses** associated with their capacity-building activities?
- (6) What **future investments** do foundations plan to make in these activities?
- (7) What **trends** in capacity building do foundations and infrastructure organizations think will most influence future foundation financial investments?

Information from (a) the overall PCBR database, (b) a Spring 2005 survey of foundations whose programs are profiled in that database, and (c) a small survey of infrastructure organizations provide preliminary answers to these seven questions. These “first cuts,” each of which opens with a brief summary, can offer guidance to foundations, nonprofits and communities as they wrestle with the complex challenges of nonprofit capacity building – how to both provide and pay for it. The final section of this report identifies several next steps that might be taken, both to obtain richer data and to use these data for good decision-making. An appendix describes the method used in this research study, and discusses some of its limitations.

**(1) What overall investments have foundations been making the last few years, using both broad and narrow definitions of capacity building?**

**Highlight:** *By either a broad or narrow definition, foundations are making substantial investments in capacity building. This funding took a significant upward trend at the end of the 1990s, and a downturn in the last several years. The PCBR survey indicates that a small number of foundations make large investments, but half of responding programs report funding less than \$250,000 a year.*

How tall is a dog? Measuring foundation investments in capacity building starts with defining operationally what the term means. In the literature reviewed for this study, most definitions estimated these investments by combining figures for “management development” and “technical assistance” gathered by the Foundation Center’s annual *Foundation Giving Trends* study. PCBR’s definition is considerably broader, including *all* types of foundation financial support that strengthens a nonprofit’s ability to achieve its mission. In Foundation Center terms, this broader definition includes all “general support” (such as management development and operating support), “capital support” (such as building/renovation/endowment), “technical assistance” and “emergency funds.”

The Foundation Center reports that the following support in dollars was awarded by approximately 1,000 foundations (including the 800 largest U.S. foundations), out of a 2004 total of \$18.2 billion:

<i>Year</i>	<i>Narrow defn</i>	<i>Broad defn</i>
1998	210,460,000	3,777,259,000
1999	294,471,000	4,552,157,000
2000	421,719,000	5,714,917,000
2001	478,706,000	6,557,083,000
2002	738,202,000	6,468,197,000
2003	583,538,000	5,740,128,000
2004	540,273,000	5,975,662,000

Decreases in funding since a peak in 2002 likely reflect both reductions in overall foundation giving after a significant downturn in the U.S. economy, and reductions in support for capacity building by several large national foundations (Atlantic Philanthropies, David & Lucile Packard Foundation and Carnegie Corporation, among others) that elected to end major initiatives in this field.

Investments in broadly-defined grantmaking and direct financial support, made over a recent one-year period by respondents to the Spring 2005 PCBR foundations survey, were as follows:

<i>Total</i>	\$434,409,092
<i>Range</i>	\$1,000 to \$79,225,000
<i>Mean</i>	\$2,820,838
<i>Median</i>	\$250,000

A total of 177 programs from 142 foundations responded (the exact number of responses varies for the other survey items reported below) – a 58.2% response of the 304 programs included in the survey (see Appendix for details). These results, to the extent they are representative of national patterns, indicate a wide range in support provided for capacity building by U.S. foundations.

**(2) What investments are foundations making in *direct services* they themselves offer to nonprofits?**

**Highlight:** *Foundations are traditionally thought of only as grantmakers in the capacity building field. In fact, almost 90% of the programs profiled in PCBR also offer some type of direct service to nonprofits in their areas of interest. The more complex of these activities involve hiring specialized staff and setting up an infrastructure within the foundation for providing services. These types of philanthropic capacity building have been little studied. In the PCBR survey, 10% of all capacity-building investments were made to support direct services.*

Direct capacity-building services by foundations typically are offered in addition to making grants or underwriting purchase of third-party services by nonprofits (consultation, education, etc.). Foundations sometimes offer direct services only to their grantees. In other cases, a direct service program is open to all nonprofits in the funder's communities of interest. Services provided may range from hosting a convening on capacity building or sharing on-line information, to running a management assistance program in-house with foundation staff hired specifically to operate it.

Of the 356 programs in the PCBR database in December 2005, 317 report that they provide some type of direct service to the nonprofit community. These include the following categories:

- Assessment of Needs for Service - 172
- Foundation Website offering Capacity-Building Assistance - 116
- Convenings for Nonprofits on Capacity-Building Topics - 254
- Education/Training for Groups of Nonprofits - 211
- Coaching/Training for Individual Nonprofits - 169
- Information and Referral Services - 261
- Placing Funder Representatives on Nonprofit Boards - 31
- Participation in Community Capacity-Building Initiative - 151
- Creating Infrastructure for Peer Networking by Nonprofits - 179
- Center (Facility Offering Services) - 42 (including 12 comprehensive resource centers)

Among respondents to the Spring 2005 PCBR survey, investments in direct services were as follows:

*Total* \$43,454,315  
*Range* \$1,000 to \$11,781,100  
*Mean* \$430,241  
*Median* \$65,000

These results indicate, to the extent they are representative of national funding patterns, that foundation investments in direct services are significantly smaller than those in grantmaking, but they are quite common. Other published estimates of foundation investments in capacity building do not identify or break out direct service activities. These aspects of philanthropic support for capacity building have not been much studied previously, although some of these services (such as convenings or creating peer networking opportunities) are commonly understood as part of the "non-grantmaking" portfolio of activities U.S. foundations often undertake in support of the nonprofit sector.

**(3) What investments are foundations making to support *infrastructure organizations* involved with capacity building?**

**Highlight:** Foundations are significant funders of local, regional and national infrastructure organizations that support and connect individuals and organizations providing capacity-building assistance to nonprofits. This funding accounts for 10% of the overall investment made by PCBR programs responding to the Spring 2005 PCBR survey. Respondents to a survey of 32 infrastructure organizations indicated that roughly 2/3 of their support comes from foundations, usually from multiple grants.

A total of 24 programs in PCBR’s database in December 2005 fund national infrastructure related to nonprofit capacity building, while 56 support state/regional infrastructure, and 62 support local infrastructure. Respondents to the Spring 2005 PCBR survey reported the following investments:

Total \$47,864,875  
 Range \$65-\$25,500,000  
 Mean \$739,760  
 Median \$50,000

In a separate Spring 2005 survey of 32 national, regional and local infrastructure organizations, these groups reported the following total budget, budget for their infrastructure work (activities supporting funders or providers of capacity-building services – as opposed to public information, advocacy, or other more general activities), and amount of support received from foundations for each:

	<i>Total annual budget</i>	<i>Budget for infrastructure work</i>
Total	\$69,219,716	\$48,237,029
Range	\$80,000 - \$15,635,764	\$16,500 - \$15,635,764
Mean	\$2,386,887	\$1,663,346
Median	\$1,400,000	\$937,530

  

	<i>Foundation support - total</i>	<i>Foundation support - infrastructure</i>
Total	\$41,922,772	\$34,517,754
Range	\$73,000 - \$15,635,764	\$5,000 - \$15,635,764
Mean	\$1,413,466	\$1,158,120
Median	\$639,850	\$417,000

Infrastructure organizations reported the following about the number of foundations providing support to them:

	<i>Number of foundations supporting total budget</i>	<i>Number of foundations supporting infrastructure</i>
Total	2,540	2,405
Range	3-2,000	1-2,000
Mean	88	83
Median	8	7



#### **(4) What investments are foundations making to fund *evaluation of capacity building*?**

**Highlight:** *Foundations are investing in evaluating both the process and outcomes of capacity-building programs they support. Support for evaluation represents about 1% of the total investments made by respondents to the Spring 2005 survey of PCBR programs. Roughly 2/3 of respondents report they have done some type of evaluation.*

In the PCBR Spring 2005 survey, respondents invested the following amounts on evaluating capacity-building activities they support:

*Total* \$4,586,540  
*Range* \$500 - \$1,250,000  
*Mean* \$69,493  
*Median* \$15,000

Among the 356 programs in the PCBR database as of December 2005, 216 or about 2/3 reported they have undertaken some sort of evaluation of their activities. For comparison purposes, the overall investment in grants for evaluation made to outside organizations in 2004, as reported by the Foundation Center's sample of slightly more than 1,000 larger foundations, was \$129,832,000.

#### **(5) What investments are foundations making in *administrative expenses associated with their capacity-building activities*?**

**Highlight:** *Though these expenses often aren't broken out separately, and thus can't be studied precisely, there are costs associated with administering a foundation capacity-building program. Respondents to the Spring 2005 PCBR survey estimated that their associated administrative expenses represented about 7% of their total investment in capacity building.*

Administering a grantmaking, direct support or direct services program for capacity building can't be done for free. Respondents to the Spring 2005 PCBR survey indicated that they invested the following amounts in administrative expenses related to capacity-building activities they reported:

*Total* \$33,622,147  
*Range* \$240-\$6,700,230  
*Average* \$249,053  
*Median* \$35,000

These administrative expenses are difficult to calculate precisely, however, because many capacity-building activities are included in general grantmaking or foundation operations. Even when there is a separate capacity-building initiative, its administrative expenses often are not calculated separately. As a result, many respondents could only estimate what these expenses might be, and a few could not even do that.

**(6) What future investments do foundations plan to make in these activities?**

**Highlight:** Among respondents to the Spring 2005 PCBR survey, nearly 3/4 reported that they would be continuing to invest in capacity building at the same or increased levels over the next 2-3 years. About 2/3 also planned to continue evaluation activities and support for infrastructure organizations. All of the 32 infrastructure organizations studied plan to continue their capacity-building work over the next 2-3 years.

Respondents to the Spring 2005 PCBR survey described as follows their intentions about whether they would continue to fund nonprofit capacity building over the next 2-3 years:

- 50.6% Yes, at similar levels
- 21.7% Yes, at increased levels
- 1.2% Yes, but at reduced levels
- 21.7% Yes, but don't know specific levels currently
- 4.8% No, planning to stop funding capacity building

Respondents describing their intent to continue funding evaluation of capacity building over the next 2-3 years indicated the following:

- 46.4% Yes, at similar levels
- 22.7% Yes, at increased levels
- 0% Yes, but at reduced levels
- 22.7% Yes, but don't know specific levels currently
- 8.2% No, planning to stop funding evaluation

And respondents described as follows their intent to continue funding infrastructure over the next 2-3 years:

- 54.6% Yes, at similar levels
- 16.9% Yes, at increased levels
- 3.9% Yes, but at reduced levels
- 19.5% Yes, but don't know specific levels currently
- 5.2% No, planning to stop funding infrastructure

In the Spring 2005 PCBR survey of infrastructure organizations, these respondents described as follows their intent to continue carrying out infrastructure-building work over the next 2-3 years:

- 12.5% Yes, at similar levels
- 68.8% Yes, at increased levels
- 6.2% Yes, but at reduced levels
- 12.5% Yes, but don't know specific levels currently
- 0% No, planning to stop infrastructure work

To the extent these findings are representative, they suggest that foundation investments in nonprofit capacity building will continue at a substantial level, at least for the near-term future.

**(7) What trends in capacity building do foundations and infrastructure organizations think will most influence future foundation financial investments?**

**Highlight:** *The pattern of foundation investments in nonprofit capacity building is likely to change over the next few years, due to both internal and external forces. Internal forces include increased merging of capacity building with general grantmaking. External ones include foundation responses to reduced public funding, often by increasing program support to “close the gap” left by cutbacks, thus possibly reducing dollars available for capacity building. Infrastructure organizations are particularly concerned about possible further shrinkage in support – both for capacity building overall, and specifically for the kind of “connective fiber” they provide for the nonprofit sector.*

Many respondents to both surveys conducted for this research commented about trends in foundation financing of capacity building. A simple theme analysis identified nine trends that appear relevant to decision-making by foundations and the nonprofit sector:

*1 - Foundations will increasingly merge capacity building with general grantmaking. Some foundations that previously offered separate capacity-building grantmaking programs now fund these activities through their general grantmaking. Often this happens by including support for capacity building as part of a program grant to a nonprofit. Respondents were not sure what relationship this might have to overall levels of support for capacity building, but a number of them flagged it as a development that needs to be tracked, in order to understand patterns of investment.*

*2 - Increased focus on foundations measuring their own effectiveness will increase the likelihood of financial investments in capacity building. According to some respondents, foundations that focus on assessing their own impact seem more willing to invest in capacity-building interventions for their grantees. Especially if its outcomes are properly evaluated, capacity building can seem a prudent investment for foundations that want to have the most community impact, since stronger nonprofits have better outcomes (and are better able to use other resources that come to them). Recent developments in the media, legislatures and the general public about foundation effectiveness are likely to accelerate this trend.*

*3 - Decreased public funding for nonprofits will increase foundation efforts to “close the gap” in program funding, possibly reducing foundation support for capacity building (though there may be some increase in funding for capacity building that helps nonprofits respond to funding cuts). According to some respondents, shrinking government funding may lead foundations to provide more program funding, thus reducing the dollars available to fund capacity building, and the infrastructure supporting it. The irony is that reduced overall funding puts increasing pressure on nonprofit organizations to be more effective, yet there is less funding available to help strengthen them.*

However, not all respondents will address these pressures in the same way. As one foundation respondent put it: “As federal, state and local governments generate fewer grants and contracts with local nonprofits, it is likely that nonprofits will be even more stretched to find alternative sources of revenue or cut or retool programs. Nonprofits will likely turn to foundations to assist with those dynamic situations, either for planning or direct support.” Capacity building may thus be funded

to help nonprofits find new sources of support, achieve greater operational efficiency with the resources they have, and cope with the stresses of change introduced by funding cutbacks.

Another respondent also put decreases in funding in the context of resulting internal changes for nonprofits: “Shifts and changes in funding and financing available to nonprofits will have dramatic impact. There is likely to be significant turnover in executive leadership (board and staff) in the nonprofit sector. All of these factors may result in closures or mergers, or nonprofits more narrowly focusing their missions.” This respondent and others encouraged foundations to consider supporting capacity building directed at helping nonprofits handle these organizational challenges.

*4 - The greater focus on nonprofit accountability will increase demand for foundation investments in capacity building around financial management.* Respondents frequently acknowledged the much greater attention being paid to accountability in the nonprofit sector – by funders, policymakers and nonprofits themselves. There is more pressure on nonprofits to measure actual results from their work, which leads to an increased appetite for “capacity building around financial management and board development,” as one respondent saw it. Some respondents believe this will result in increased foundation funding for such efforts, though a few speculated that these activities may have to be supported principally by nonprofits out of their own internal resources.

*5 - Investments in capacity building by community foundations will be reduced due to increasing restrictions donors place on how their funds may be used.* Community foundations are often at the forefront in capacity building within their regions, and significant portions of their capacity-building work is supported through unrestricted dollars given them by community donors. But several respondents noted that community foundations are finding it tougher to secure unrestricted dollars, as donors place restrictions on outright gifts or create donor advised funds.

Also, if competition from other types of philanthropic vehicles (e.g., private sector alternatives such as Fidelity) causes decreases in dollars flowing to community foundations, this could have a negative impact on capacity building. This may be especially likely unless donors develop a better understanding of the value of capacity building for nonprofits (e.g., through some type of donor education). As one community foundation respondent put it: “people are interested in grants they are able to give out for direct services,” and capacity building is not a priority.

On the other hand, several respondents predicted there could be an overall increase in dollars flowing to community foundations in the near future, because of the coming inter-generational transfer of wealth, and because community foundations often are highly respected institutions in their communities.. For community foundations already committed to capacity building as a priority, this could result in increased support for such activities.

*6 - Direct service programming offered by foundations themselves may be reduced if there are changes in government regulation of foundations’ administrative expenses.* Possible changes in excise tax rates on foundations, and in what foundations can classify as charitable giving versus administrative expenses, could have a negative impact on how much they will fund capacity building. What comes out of the ongoing Congressional reviews, said one foundation respondent, “has major implications on whether we continue having staff or not.” If administrative expenses are not considered part of a legitimate payout, this could limit some capacity-building activities,

especially direct services offered by foundation staff. And if there is Sarbanes-Oxley type legislation for the nonprofit sector, some foundations may see capacity building as more risky (this may or may not really be true), and thus decline to fund it.

*7 - The tendency of foundations to provide only shorter-term funding for capacity building will continue to limit the impact of both capacity-building service provider organizations and infrastructure groups.* A number of infrastructure group respondents asserted that many of their funding relationships with foundations do not include any long-term commitments, even though the needs for capacity building are enduring. The same was said about investments foundations make in capacity-building service providers. In both cases, the result is less stability for these organizations, and more energies devoted to short-term fund raising rather than service to the community.

Recipients can and should make their own plans for sustainability of initiatives that have ongoing value, so they can continue even if a funder's commitment changes for one reason or another. But one-year, or even two-to-three year, investment commitments place unavoidable pressures on the nonprofit sector at all levels, as they do for nonprofits receiving program support.

*8 - If the results from evaluations of capacity-building interventions are positive, that will increase the willingness of foundations to invest in these activities.* How well investments in capacity building have succeeded, and how well the effectiveness of such investments is communicated, may have a large impact on future willingness to fund these interventions and the infrastructure supporting them, according to a number of survey respondents (both from foundations and infrastructure organizations). As one foundation respondent said, "Making some clear connection between funding this type of work and the increased ability for organizations to have greater impact would go a long way to securing bigger commitments from foundations."

For some foundation respondents, this outcome will be tied to assessments of what they have already funded. As one put it: "For FY2005, we have increased levels (almost double), but we are doing an assessment of this funding's impact that will close at the end of the fiscal year. Depending on what we find, the funding for FY2006 may drop or stay the same." In other cases, the emphasis was more on the technology used to do evaluation: "In order to sustain and increase philanthropic support for capacity building, there needs to be improved evaluation methodologies that more convincingly tie capacity-building efforts to improved client/participant outcomes."

*9 - In a tight resources environment, increased foundation investments in capacity building will follow from a clear perception that nonprofits are also willing to invest in these activities.* Having – and taking – the time to engage in capacity building is one of the major challenges nonprofits face. Especially when resources are tight, and survival of the organization may be at stake within a fairly narrow time horizon, the impulse to engage in strengthening the organization may be suppressed by survival needs. Sometimes, foundation respondents said, nonprofits say they want capacity building,

but what they really want is general operating support, and they are reluctant to use scarce staff time to engage in capacity-building interventions, even when these are supported by funders. This in turn may make funders reluctant to invest.

*Other Trends* In their responses on the two surveys, respondents provided a number of other comments. For instance, infrastructure organizations reported general concerns about the recent downturn in funding support for capacity building, wondering if this represents a more or less permanent reduction in priority for this topic on the philanthropic agenda.

On a more positive note, several respondents noted that foundations are beginning to look at how their internal knowledge management activities might intersect with efforts to structure and evaluate a capacity-building program. If they begin to accumulate both evidence and wisdom about philanthropic support for capacity building, foundations may be able to take a more strategic view about future investments. Knowledge management systems in foundations are becoming more sophisticated and user-friendly. Some systems now can include easily-accessible information in ways that enable foundation staff to design interventions for funding or conducting nonprofit capacity-building activities, and to determine which approaches work most effectively.

## Next Steps

Three suggestions for further action emerge from this research study:

*1 - Results from this research study can be used as benchmarks for community discussions about funding needs for nonprofit capacity building.* A first effort at community discussion will be undertaken at the national Alliance for Nonprofit Management conference in August 2006. A session will be convened at which a method called “360 Degree Dialogue” will be pilot-tested, using a summary of this report as a primary tool. The “Dialogue” process will offer communities a way to talk candidly about making best use of scarce resources for funding capacity building. It will provide a national profile of investments to serve as a benchmark, and to stimulate consideration of possible new strategies (e.g., direct service programs offered by local foundations, if this approach has not been tried before by local funders). Public and private funders, nonprofits, capacity-building providers and other stakeholders all can participate in this collaborative process that includes looking at investment alternatives, evaluation, and honest dialogue about return on investment.

A brief guide about this process will be prepared and placed on the Human Interaction Research Institute’s website, for use by interested foundations, infrastructure organizations and communities. Its companion piece will be an executive summary of this study (the full study report also will be available for downloading).

*2 - Discussions about financial investments in capacity building can be held within the field of philanthropy, as well as among infrastructure organizations and nonprofits in general.* Even though this research study provided only very rough estimates about national, regional and local financial foundation investments in nonprofit capacity building, its results can be used to stimulate conversations about direct service funding, calculating administrative expenses, evaluating capacity building, and other topics related to overall philanthropic strategy. For instance, Grantmakers for Effective Organizations might place a summary of the study on its website, and might encourage dialogue about financial investments (guided by a set of key questions emerging from this study) through the GEO listserv.

At the regional and local levels, regional associations of grantmakers can initiate funder dialogues on the same issues. Infrastructure organizations can come together for discussion about issues of foundation financial investments most relevant to them. Finally, the nonprofit community can discuss these issues at future conferences of the Alliance for Nonprofit Management, the National Council of Nonprofit Associations, Independent Sector, etc. Research aspects could be covered at upcoming meetings of groups like the Association for Research on Nonprofit Organizations and Voluntary Action.

*3 - More research can be conducted on topics identified by this research, and collaborations can be created among the small group of national researchers working on this subject.* Researchers also need to have a dialogue about issues related to increasing the knowledge base in both the fields of philanthropy and nonprofit management. Among the topics for such a dialogue: (a) how to create a more commonly-accepted definition of capacity building, (b) how to do cross-comparisons of data gathered about foundation financial investments, and (c) how to identify various research questions that need to be addressed in the future. Methodological issues also can be discussed, such as the need to use interview rather than survey methods when gathering data of the type reported here, where there may be wide variations in how respondents understand and interpret what is wanted.

One or more of the conferences mentioned above could be a site for an informal gathering of researchers to discuss the issues that have been presented here. Including foundation staff in some of these meetings also would be helpful, so that research agendas can be shaped in ways that increase their practical funding prospects. Such gatherings will help researchers pro-actively shape future research agendas, and hopefully over the long term, stimulate increased foundation financial investments in capacity building as well.

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## Appendix: Study Method and Limitations

**Data Sources** Five data sources were used to answer the study questions:

1 - The Foundation Center's *Foundation Giving Trends* annual study, 1998-2004.

2 - PCBR database as of December 2005, with 356 foundation programs.

3 - Survey in Spring 2005 of PCBR database foundations to gather new information. There was a total of 331 programs in the database at that time. The final survey sample included all programs active in June 2003 or more recently (that cutoff excluded 23 completed programs). Four other foundations removed themselves from the datagathering for valid reasons, e.g., they had gone out of business or had changed institutional form. Thus the sample queried for the survey was 304 programs.

4 - Survey in Spring 2005 of national capacity-building infrastructure organizations; the informal sample was the 18 organizations that participated in the Pocantico Infrastructure Group, a national convening of infrastructure organizations held in 2003 – see list below.

Also included in the infrastructure survey were state/regional/local infrastructure groups; the informal sample was 14 organizations identified from the membership list of the Alliance for Nonprofit Management, and from ongoing HIRI research – see list below.

5 - Major recent publications on nonprofit capacity building (books and research monographs, including but not limited to those in the reference citations to this report).

**Data Gathering** The following methods were used to gather data from these five sources:

1 - Existing data were gathered online from the Foundation Center and PCBR databases. The PCBR data retrieval included both compilations via the Access database in which data are stored, and hand counts as needed (e.g., to determine total number of foundations with direct service activities).

2 - Surveys were distributed by e-mail to the identified contact person for 304 active programs in the PCBR database, and to the executive directors of selected national and regional infrastructure groups. Responses were obtained through SurveyMonkey, a commercial online survey format, or by telephone interview in some cases. Follow-up was done individually by e-mail and/or phone, using a pre-determined schedule and protocol, to ensure as complete a response and response rate as possible. Data were gathered between March and July 2005.

3 - Publications on nonprofit capacity building were reviewed for information related to the study.

**PCBR Program Survey** Responding foundations provided usable data for 177 programs. The total response rate was 58.2%. No response was received for 22% of the foundation program contacts queried, and 19.7% declined to respond (most cited lack of time to make a response, or lack of data in appropriate formats to make a response possible).

Survey participants broke out as follows by type of foundation: 17.0% Family, 2.1% Corporate, 35.9% Community, 24.6% Independent, 6.3% Funder Collaborative, 7.7% Public and 6.3% Other.

Reporting periods for data gathered from PCBR database foundations ranged from January 2002 to June 2005. Of all respondents, 62.7% reported data for calendar year 2004, 12.4% for fiscal year July 2003-June 2004, and smaller numbers reported from 15 other reporting periods, each totaling 6% or less of all respondents (most of them a single respondent, or 0.6%).

Not all respondents provided data for each of the requested categories. For example, some respondents had grantmaking/direct support activities but not direct services, or the reverse. In follow-up interviews used to confirm data (as explained below), a few respondents indicated they were unable or unwilling to provide data for certain items, because their record-keeping was not set up to do so (many but not all respondents provided estimates, and the number of non-responses was significant only for administrative expenses).

***Infrastructure Organization Survey*** The response rate for this sample was 100% (three respondents did not break out their budgets to identify support for infrastructure work, and so were excluded from the three relevant items reported). Achieving this response rate required considerable follow-up by e-mail and telephone to obtain all responses. Reporting periods for which data were provided were 71.9% for calendar year 2004, and 12.5% for fiscal year July 2003-June 2004. The remaining 15.6% were small percentages on a variety of additional time frames.

**Data Analysis** The data analysis scheme followed for this research project was simple:

- 1 - Information extracted from the PCBR database was collated and reviewed.
- 2 - Surveys obtained from PCBR foundation programs (the program was the unit of analysis) were analyzed to determine in dollars the total, range, mean and median investments in capacity building and infrastructure, as well as investments in administrative expenses and evaluation of capacity building.
- 3 - Responses on other numerical items from the PCBR foundation surveys were summarized based on incidence by response category, and expressed in percentages.
- 4 - Write-in responses from the PCBR foundation surveys were subjected to theme analysis by two project staff working independently, deriving major themes and illustrative quotations.
- 5 - A similar data analysis approach was used for data from infrastructure organizations.
- 6 - Foundation Center data were broken out by year to identify patterns of support for capacity building.
- 7 - Literature sources were reviewed to derive relevant statistics and interpretive comments about foundation investments in capacity building.

Two problems emerged at the beginning of data analysis:

(a) An initial scan of PCBR foundation data revealed several figures that seemed unlikely (e.g., a dollar figure for annual capacity-building investments that was greater than the total amount of *all* grantmaking done by the responding foundation for the year in question). It turned out that a number of respondents had interpreted data requests differently than the researchers (e.g., providing total rather than annual funding for a multi-year initiative). To verify dollar figures obtained about foundation financial investments from the PCBR foundations, in February 2006 an e-mail was sent requesting re-confirmation of the three dollar figures in question (some responses already had been confirmed through surveys administered by telephone). Follow-up calls were made as needed, resulting in an 87% response to the request for confirmation. A total of 36% of all responses were modified in some way as a result of this follow-up, thus increasing greatly the quality of the data reported.

(b) As mentioned, three infrastructure organizations provided total budget only, with no breakout for capacity-building infrastructure work. None of the three felt they could validly separate out infrastructure funding. Their figures for total, range and average for infrastructure expenditures were thus excluded from calculation, reducing the sample size to 29 for the three relevant survey items.

**Study Limitations** The major limitations of this study were as follows:

*1 - The time period survey responses cover varied.* The information provided by respondents does not all cover the same time period as indicated above. Because of differences in fiscal years, many of these differences are not resolvable, thus introducing an unknown degree of bias in the data, both in terms of the impact of inflation and changes in funding priorities over these years by the foundation community. All we can really say is that we have figures estimating financial investments in capacity building by a number of foundations and their programs during one recent fiscal year.

*2 - Different data sources used varying definitions of capacity building.* Definitions of capacity building can range from narrow to broad, as discussed earlier. There is a 10-fold difference in estimates of foundation financial investments based on Foundation Center data depending on which definition is used. Such differences affect comparability of data across studies of capacity building.

*3 - Estimates, not hard figures, often were provided.* Many respondents to the PCBR foundation survey estimated their financial investments, because they did not have figures at hand that were in the form we sought. Some respondents could not provide an estimate that would have any validity using any of the approaches we suggested (% of total, by percent of membership or program participants, etc.). Noted one respondent: "I have real hesitation about this because any estimate I come up with has no real factual basis-- it's just my best guess." All data obtained for this research project must be interpreted in this light.

*4 - Foundations track capacity-building grantmaking in varying ways.* As an organized field of work capacity building is young and evolving. Especially for those funders whose capacity-building work

is wrapped into their overall grantmaking rather than broken out as a separate program, capacity-building investments are simply not tracked. In fact, both the Foundation Center's research and this study noted challenges in obtaining specific data about foundation investments. Many of our respondents indicated "We don't track our figures that way." And even precise figures may not have been comparable with data from other foundations or other sources, as already noted.

*5 - Both the wording of survey items about financial investments and the responses to them were not always clear.* As indicated earlier, anomalies in the raw data led us to re-confirm three of our most important statistical items, and we found that upon clarification many respondents did change their responses in some way. Review of our survey items suggest that despite our efforts to be unambiguous in what we were requesting, there were challenges of interpretation.

*6 - Our definition of what "infrastructure" includes is not universally shared.* What "infrastructure" means also created a challenge in gathering accurate information. Some of the infrastructure groups surveyed automatically included direct capacity-building work with individual nonprofits as part of supporting infrastructure. We needed to re-ask our questions about infrastructure funding to many, before they understood the distinction we made between support for infrastructure (i.e., for training or organizing capacity-building providers or funders), and work that involves direct assistance to nonprofits. One example of a response that then required further probing: "It is very difficult for me to answer this. All of our work is infrastructure work. About 1/3 of our work is specifically with capacity builders and other associations."

Also, some foundations support infrastructure groups by paying membership dues to them, others provide grants, and some offer both dues and additional grants. We identified this subtle difference well into data-gathering, and began to mention both examples during interviews for clarification. It is very likely that some of those from whom we received information early in our study may pay dues to infrastructure groups but did not report that support.

*7 - Our "unit of analysis" was the foundation program for capacity building, which may or may not have been all of the foundation's activity in this area.* Data gathering for the PCBR portion of this research study was by program because that is how PCBR is organized. In a few cases, foundations with more than one program indicated they were unable to separate out investments or expenses associated with a particular program, and we had to factor that into our analysis. Perhaps more importantly, with some foundations a certain amount of generic grantmaking for capacity building may not have been included as part of a "program," so we may have under-estimated the amount of capacity building grantmaking by our responding foundations and their programs.



## **National and Regional Infrastructure Organizations**

### ***Sample of National Infrastructure Groups***

1. Alliance for Nonprofit Management
2. Association for Small Foundations
3. The Aspen Institute
4. BBB Wise Giving Alliance
5. BoardSource
6. Center on Nonprofits and Philanthropy, Urban Institute
7. Council on Foundations
8. Fieldstone Alliance
9. Forum of Regional Associations of Grantmakers
10. Grantmakers for Effective Organizations
11. GuideStar
12. Independent Sector
13. National Assembly of Health and Human Service Organizations
14. National Center for Family Philanthropy
15. National Committee for Responsive Philanthropy
16. National Council of Nonprofit Associations
17. The Nonprofit Quarterly
18. OMB Watch

### **Sample of State/Regional/Local Infrastructure Groups**

1. California Association for Nonprofits
2. Center for Nonprofit Management
3. CompassPoint
4. CONNECT: Partnership for Nonprofit Solutions
5. Indiana Nonprofit Resource Network
6. Long Beach Nonprofit Partnership
7. Maryland Association of Nonprofit Organizations
8. Michigan Nonprofit Association
9. Minnesota Council of Nonprofits
10. Nonprofit Coordinating Committee of New York
11. Southeastern Organizational Development Initiative/Southern Rural Development Initiative
12. Texas Nonprofit Management Assistance Network
13. Third Sector New England
14. Upstate Alliance for Nonprofit Excellence



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