Effective Grantmaking Practices that Support Nonprofit Sustainability

A Report to the Blue Cross and Blue Shield of Minnesota Foundation

Blue Cross and Blue Shield of Minnesota FOUNDATION

The Blue Cross and Blue Shield of Minnesota Foundation focuses its resources to address social determinants to improve health in three main focus areas: increasing access to quality early childhood education; creating and fostering safe and welcoming communities; and expanding enrollment in public insurance programs. Across all areas, the Foundation has increased its "assistance beyond the grant" activities to better support and strengthen all organizations receiving grant dollars. This literature review focuses on approaches the Foundation can use to better support the health and sustainability of these organizations.

Nonprofit organizations need to routinely grow and adapt in response to changes in technology and a challenging economic and political climate in order to be sustainable. A review of the literature identified a number of elements critical to nonprofit sustainability and components of effective capacity-building activities. Although capacity building has been an increasingly common approach among grantmakers, there is not a model that assures these activities have long-lasting impact. Further, research shows that funders do not accurately anticipate the needs of grantees, leading to misalignment of resources. Informed by the literature, the summary includes the following recommendations for the Foundation:

- Continue to build on current efforts to establish strong relationships with grantees, listen, and respond.
- Seek short- and long-term feedback about usefulness and impact of capacity building resources provided to grantees.
- Consider using additional funding strategies, such as loan programs.
- Gather additional input about ways staff and organizational self-care can be fostered.

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Overview

The economic, social, and political context in which nonprofits operate has changed dramatically over the last two decades, increasing competition and requiring nonprofits to have a broader array of skills and competencies to secure funding and advance their organizational mission. Over the same period of time, funders in the philanthropic sector have increased their focus on the sustainability of effective programs and initiatives as a measure of impact, and adopted a more holistic approach to help build and sustain nonprofit organizations. As a result of this shift, it has become increasingly common for funders to support nonprofit capacity building through general operating support or assistance beyond the grant (Buteau, Loh, & Ilegbusi, 2018). Grantmakers for Effective Organizations, 2014). However, it is not clear how grantmakers can be most effective in their work to build nonprofit organization capacity and increase grantee sustainability.

This summary draws on peer reviewed literature and studies commissioned by foundations and grantmaking associations to:

- Define nonprofit sustainability,
- Identify key components of effective capacity-building efforts,
- Describe the challenges faced by grantmakers, and
- Provide recommendations to support nonprofit sustainability.

Throughout the summary, the terms foundations, funders, and grantmakers are used interchangeably to describe the entities that provide grants or other financial support to nonprofit organizations.

A framework for nonprofit sustainability

Stated simply, nonprofit sustainability is demonstrated when an organization is effective in its efforts to demonstrate mission-aligned outcomes over time. There is not a common framework used in the philanthropic sector to describe the factors most critical to nonprofit sustainability, but it is clear that a broad range of competencies are necessary, including the ability for nonprofits to evolve and adapt to external changes. An organization committed to achieving its mission needs to continually reassess the impact of its work and, when needed, make changes. Grantmakers for Effective Organizations describes the necessity of ongoing assessment and adaptation in its definition of organizational effectiveness as the "ability of an organization to fulfill its mission through a blend of sound management, strong governance, and a persistent rededication to achieving results."

While nonprofit sustainability requires that the organization demonstrates positive outcomes that benefit the community, program or organizational effectiveness is only one aspect of sustainability. **The multiple factors that are needed to support nonprofit sustainability can be organized into three broad categories: mission-aligned leadership, adaptability, and organizational capacity** (York, 2009). Together, these factors help organizations thrive or adapt to a changing economic, political, and social environment. Organizations with a strong internal infrastructure, diversified funding and other types of support, mission-aligned leadership, effective programs, and beneficial external relationships grow when opportunities arise and demonstrate resilience when faced with unexpected challenges (Kimberlin, Schwartz, & Austin, 2011). The framework below recognizes the capacities that organizations need to be effective and also recognizes that, for long-term sustainability, organizations must move successfully through periods of change (Figure 1).

Organizational resilience is demonstrated by an organization successfully navigating unexpected challenges. When adversity emerges, resilient organizations recognize their new reality, draw on the organizational values that bring meaning to the work done by employees, implement and maintain effective communication systems, and invest in forward-looking improvements (Kimberlin, Schwartz, & Austin, 2011).

1. Organizational sustainability framework

Adapted from York, 2009 and Kimberlin, Schwartz, & Austin, 2011

Brief description of the types of capacities that fall within each category follow. All capacities do not need to be present simultaneously for an organization to survive and thrive (Kimberlin, Schwartz, & Austin, 2011). However, for long-term sustainability to occur, organizations need to attend to each of these areas and ensure the organization has the resources and skills necessary to respond to current and upcoming challenges and opportunities. These factors are also necessary for organizations to build and maintain their reputation within the community and among organizational partners and funders.

Mission-aligned leadership

Strong leadership by staff and by the organization's board of directors is critical to organizational sustainability. Leaders are responsible for setting a clear vision, anticipating the potential impacts of changes in the external environment, fostering innovation and ongoing improvement, and ensuring the organization remains committed to mission, particularly during times of growth or change. Sustainable organizations are also well-managed, ensuring that resources are used effectively and efficiently in alignment with organizational priorities (York, 2009).

Adaptability

Nonprofit organizations must regularly adapt and innovate, both in how the organization provides services and in how it seeks external revenue (Weerawardena, McDonald, & Mort, 2010). Nonprofit organizations are challenged to seek reliable funding to cover current costs, plan for the future, and invest in critical infrastructure (e.g., technology systems, leadership development) (Grantmakers for Effective Organizations, 2015). For new nonprofit organizations or organizations in the midst of significant change, financial security may be particularly difficult to maintain. Financial adaptability requires organizations to maintain relationships with existing funders while also continually diversifying its revenue sources and anticipating changes in funding trends (York, 2009).

Successful organizations also understand the current and changing priorities of the communities they serve and routinely evaluate program outcomes and make changes to increase effectiveness. Organizations with a strong mission and vision, as well as organizations redefining their intended impact and goals, need to understand and respond to community priorities in order to develop and maintain a strong reputation.

Although organizations must demonstrate adaptability in response to internal and external factors, organizational change must stay aligned with mission. During periods of organization growth, mission drift is a risk to nonprofit organizations (Kimberlin, Schwartz, & Austin, 2011). It is important for organizations to clearly communicate how changes support mission-aligned growth to staff, board members, and external stakeholders.

Organizational capacity

Sustainable nonprofit organizations need to have the knowledge, technology, tools, and facilities to implement programs, manage staff effectively, and allocate resources to support organizational priorities. This broad category encompasses a number of different skills, tools, and resources, that support the development of the structures and systems needed to integrate new tools into day-to-day operations. Development, communications, and evaluation are common capacity building areas that are all tied to an organization's ability to secure new and ongoing funding. Organizational capacity is not only an investment in new tools and technology, but also an investment in the professional development of staff to expand and deepen their expertise and to help them further develop their skills in response to changing community priorities.

Organizational connectedness, although mentioned less frequently in the literature, is another aspect of organizational capacity. A nonprofit organization needs to develop and nurture multiple relationships with a range of partners, collaborators, and constituents to achieve its organizational mission. Building partnerships with other organizations to collaborate on aligned work, developing long-term relationships with a growing and increasingly diverse audience of donors and supporters, and engaging communities in shaping priorities and assessing impact requires that organizations establish infrastructure to support ongoing outreach and engagement at multiple levels. Organizations that invest time and resources into increasing social connectedness are better equipped to establish themselves and cope with external pressures, including revenue and resource shortfalls (Moldavanova & Goerdel, 2018).

The relationships and partnerships that nonprofits have are critical to their long-term sustainability. These relationships include developing close partnerships with key organizations or within collaborations and coalitions, as well as engaging a diverse group of supporters interested in the organization's mission and success (Osborne, Radnor, Vidal, & Kinder, 2014). Both types of relationships require time and resources to develop and maintain, and must be supported by ongoing and intentional outreach by the organization. It is also critical that these relationships are strategic and targeted. A review of successful community change initiatives found that the most successful efforts were very effective in bringing the partners to the table with the necessary capacity, interest, and positioning to take on key aspects of the work (Trent & Chavis, 2007).

Grantmakers can help foster organizational engagement by how they approach collaboration. Foundations functioning as network catalysts are humble, focusing less on their role as a convener and more on recognizing the contributions of others. They also recognize the necessity for collaboration in order to address long-standing and challenging issues. In addition, networks are fostered when organizations with different capacities and resources are mobilized together (Wei-Skillern & Silver, 2013).

Grantee perspectives on sustainability

The 17 grantees identified by Foundation staff named a number of characteristics of organizational sustainability that align with the literature and framework presented in this review. A majority of grantees identified **flexible financial support** as critical to sustainability, emphasizing the importance of flexible funding sources to support innovation, responsiveness to community, and nimbleness in a dynamic and ever-changing external environment. This included funds for general operating expenses, hiring staff for program expansions, and capital funds for building improvements. Grantees had interests in both establishing long-term relationships with funders and expanding individual donor bases as ways to broaden flexible revenue sources.

A number of grantees also named **professional development** of key staff or to build skills in specific areas, including advocacy, communications, and evaluation as key to sustainability and organizational growth. Less common, but just as important to individual organizations, were **systems** to support internal operations, **technical infrastructure** (database, evaluation tools), and **improved external relationships** between leadership/board members and community. Multiple organizations also stressed the importance of having resources to establish individual and organizational practices that support **staff self-care.** There are many resources available describing the importance of self-care, particularly for staff working in advocacy, human services, and social justice organizations. However, self-care was not named explicitly in the literature focused on key elements nonprofit sustainability. The Foundation can demonstrate its understanding of and responsiveness to the realities of organizations working in the current political and social climate by including self-care/staff well-being as part of its framework for supporting organizational sustainability and seeking additional information about how they, as a funder, can help support this critical aspect of organizational resilience.

Capacity building to support organizational sustainability

For the past two decades, there has been increasing attention on the role that philanthropy can play in supporting the health and sustainability of nonprofit organizations through capacity building support. However, while capacity building is a frequently used term in the field, it does not have a common definition. In addition to capacity building covering a wide range of areas, it also includes efforts at an individual, organizational, or community level (Castillo, 2016). Broadly speaking, capacity building can be considered the process of strengthening organizations to continually improve and have greater impact in achieving their missions (TCC Group, 2009). Capacity building, when aligned with the unique needs of the nonprofit, helps organizations "deliver stronger programs, take risks, build connections, innovate, and iterate" (Grantmakers for Effective Organizations, n.d.).

The types of skills and topics that are the focus of capacity building efforts are varied and include: board development; leadership development; alignment of vision and mission; human resource management; employee engagement; improved fundraising; evaluation and performance improvement; strategic planning; and community engagement (Figure 2; Castillo, 2016; DeVita, Fleming, & Twombly, 2001). Nonprofit organizations are continually evolving, functioning as dynamic systems in the context of a changing social, financial, and political environment. In the same way, capacity building priorities reflect an organization's current internal resources and external context.

2. Key dimensions of nonprofit capacity building

	Examples of capacity building activities
Mission-aligned leadership	– Leadership development – Board development – Community health needs assessments
Adaptability	– Evaluation and performance improvement – Strategic planning – Donor recruitment, management
Organizational capacity	– Human resource management – Communications support – Organizational network development – Internal systems and processes

Adapted from Minzner, Klerman, Markovitz, & Fink, 2014

Studies examining the short- and long-term effectiveness and impacts of capacity building efforts are limited (Light & Hubbard, 2004; Despard, 2016)**.** Multiple studies demonstrate that capacity building investments do result in new skill development and measureable changes in specific outcomes, including financial sustainability (Castillo, 2016; Faulk & Stewart, 2017). Most of these evaluations rely on pre-post measures of grantees' self-reported changes in skill or quasi-experimental studies estimating impact (Minzner, Klerman, Markovitz, & Fink, 2014). There are far fewer evaluations focused on understanding the long-term impacts of capacity building initiatives. Some studies have shown positive gains are not maintained longer-term, but could not conclude which factors may contribute to this (Francis, Minzner, Fisman, & Fox, 2011). In addition, it is not clear which of many potential capacity-building approaches are most likely to ultimately lead to long-term organizational sustainability (Shumate, Cooper, Pilny, Pena-y-lillo, 2017). In addition, few studies have tried to make a clear connection between capacity-building efforts, changes in organizational capacity, and how those changes impact the organization's success in positively impacting client outcomes or community-level change.

Results from a few studies do provide some insights into factors that contribute to the outcomes of capacity building initiatives (Despard, 2016). Outcomes may be more likely when capacity building technical assistance is coupled with grant funding. The ability of organization leaders and staff to participate in capacity building training and support is also a key factor in successful capacity building initiatives. This includes support for staff at all levels of an organization to participate, time for ongoing discussion to apply what was learned, and investment in an external facilitator to create tailored learning opportunities.

Best practices in effective capacity building

Effective capacity building efforts should align with the interests and priorities of the nonprofit organization. Whether using a formal tool or an informal process, it is important to assess an organization's current status and anticipated challenges in order to determine what skills and resources are most important to expand. Ideally, a review of organizational capacity should include: a) reviewing and, if necessary, revising the organization's vision and mission; b) considering the effectiveness of current staff and board leadership and identifying gaps to be addressed by enhancing existing leadership or developing new leadership; c) determining any resource gaps, including not only financial management and fundraising, but also systems that support efficiency and quality and staff training and skill development needs; d) understanding the impact of the organization's outreach and networking efforts, including its reputation in the community and among potential funders and collaborators; and e) reviewing organizational performance metrics (e.g., outputs, outcomes, and impacts) (De Vita, Fleming, & Twombly, 2001).

Common elements of effective approaches

There is not a single capacity building model that has been found to be most effective in supporting organizational sustainability. Funders generally provide capacity-building support in one or more of the following ways: specific capacity building grants or financial support for general operations; technical assistance provided by skilled foundation staff; or training and support by third-party organizations contracted by the foundation (Buteau, Loh, & Ilegbusi, 2018). There are advantages and disadvantages to each approach. Financial support for general operating expenses is the most flexible type of funding for nonprofit organizations and recognizes their ability to identify and effectively address priority issues, but may not be a reliable revenue source for longer-term capacity building efforts. Although foundation staff may provide or hire contractors to support grantee capacity building efforts, nonprofit organizations may request the supports they believe the foundation prefers to fund rather than what is most important for addressing their organization's needs (Buteau, Loh, & Ildgbusi, 2018). In addition, because capacity building efforts are rarely evaluated, foundations may not know whether the resources they make available to organizations are actually helping in building organizational capacity. To provide effective assistance beyond the grant, funders need to both build trusting relationships with grantees and ensure the support provided is high quality and impactful.

Effective capacity building approaches do share a number of common components (Figure 3). A number of best practices are easy to anticipate; it is important for assistance beyond the grant activities to align with the needs of the organization, be provided by skilled staff or hired contractors, and be timely. Another effective strategy that funders can adopt is to provide a broad range of capacity building resources and supports to grantees. A study conducted by the Center for Effective Philanthropy found that grantees who receive comprehensive support (defined as 8 or more types of capacity building assistance) or field-focused assistance (focused on increasing grantee knowledge and network within a specific field or content area) had substantially more positive experiences with funders, felt the support had greater impact on their organization, and were more likely to report that the support improved sustainability than grantees who received no assistance (Buteau, Buchanan, Bolanos, Brock, & Chang, 2008). Although nonprofit organizations benefit from customized capacity building support, it is also helpful to create opportunities for peers to connect through networking, mentoring, and information sharing. Finally, effective capacity building approaches recognize that programs survive within an organizational context (Buechel & Handy, 2007). Funders interested in supporting organizations in sustaining work beyond the grant cycle recognize that a strong program cannot be sustained in an organization that is unhealthy or instable. To provide the appropriate type and level of support, the funder must consider the social, economic, and political context that shapes the organization's reality.

3. Elements of effective capacity building efforts

	Effective capacity building programs:
Comprehensive	Provide a range of technical assistance, financial resources, and other types of support, rather than a narrowly-defined intervention
Customized	Align with the nonprofit's needs, interests, and its place in the organizational life cycle (e.g., young, start-up organization; established organization)
Competence-based	Are requested by the individuals most knowledgeable about the nonprofits needs and priorities and provided by individuals/contractors with the right skills.
Timely and readiness-based	Occur at the right time for the organization to most benefit from the support
Peer-connected	Include opportunities for peer-to-peer networking, mentoring, and information sharing
Contextualized	Recognize capacity building occurs in the context of other organizational activities and the broader social, economic, and political climate

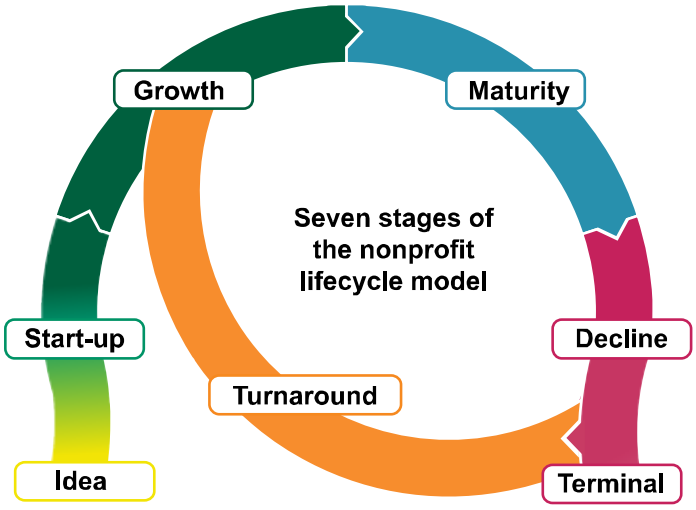
Adapted from Backer, 2001

Additional considerations

Align capacity building priorities with organizational lifecycle

Effective capacity building priorities for a nonprofit organization evolve across its lifecycle. Organizations not only change in response to the external environment, but also as a result of the infrastructure needs as the organization grows in size, breadth of services, and revenue. Each stage of the nonprofit lifecycle requires different competencies and development of new skills and capacity (Figure 4). During growth periods, for example, an organization needs to develop a stronger infrastructure to support an organization growing in size, expanding its programming, or working more deeply in community. At this point in the nonprofit lifecycle, there is risk of growth being inconsistent with the organization's mission or occurring too quickly for staff in new positions to be supported and effective in their roles (Kimberlin, Schwartz, & Austin, 2011). Understanding where an organization is in its lifecycle can help identify the skills and capacities most necessary to further develop in order to endure transitions and support growth.

4. Seven stages of the nonprofit lifecycle model



- **Idea:** Prior to a nonprofit organization forming, one or more individuals develop an idea to fill a community need.
- **Start-up:** Mission and individual passion drive the organization, with little focus given to governance, systems, management, or sustainability.
- **Growth:** Programs become well-established and the organization develops a strong reputation, but demands for service exceed the organization's capacities.
- **Maturity:** The organization functions smoothly, has a strong community reputation, and consistently delivers high-quality, mission-aligned services.
- **Decline:** Services no longer meet community needs, innovation stagnates, and with less demand for services, the organization becomes financially unstable.
- **Turnaround:** The organization takes clear steps to regain community respect and rebuild financial stability; the organization returns to the growth stage.
- **Terminal:** Without the turnaround stage leading to a return to grown, the organization loses purpose, energy, and reputation and then self-terminates.

Stevens, 2001

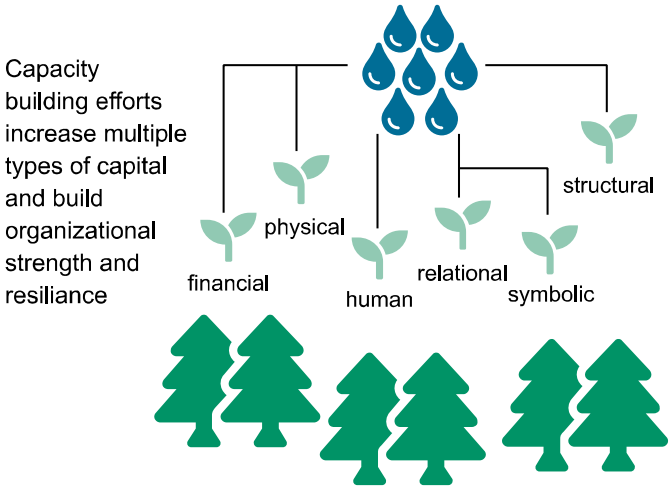
Use strength-based approaches

Through their actions, funders demonstrate whether their organization draws on a strength-based or deficit-focused capacity building philosophy. By creating funding priorities, identifying grantee eligibility requirements, and designing grants that influence how an initiative is implemented, the theory of change model developed by a foundation also establishes expectations of the skills and competencies nonprofit organizations need in order to be effective (Faulk & Stewart, 2017). Although there has been a shift in the

field of philanthropy to support an asset-based approach to capacity building, in practice, the term still implies that an organization receiving technical assistance is correcting something that is inadequate or a significant gap (Hubbel & Emery, 2009). A focus on coaching, rather than capacity building, may be more aligned with a philosophy of bringing talented individuals to an even higher level of performance.

Another approach to build on organizational strengths, rather than identifying gaps, is more clearly connecting capacity building efforts to multiple forms of capital. Strong nonprofit organizations work to increase six main types of capital: a) financial (cash reserves and funding to achieve mission over the long term); b) physical (buildings, machines, and environment surrounding physical locations); c) human (the wide range of experience and skills of staff and community members); d) relational (connections with stakeholders within and external to the organization, including political capital); e) symbolic (an organizations reputation in the community, organizational culture); f) structural (organizational networks, structures, and processes) (Castillo, 2016).). Other frameworks highlight social capital to refer to the networks and relationships organizations have built and the resources those connections can create (Kwon & Adler, 2014). Some research suggests that investment in one type of capital activates change in other types of capital, generating a "spiraling up" of positive momentum (Emery & Flora, 2006). Funders can help increase capital in multiple ways; for example, although capacity building grants focused on building financial management skills may lead to longer-term outcomes, a more direct way for funders to supporting nonprofit sustainability is to help nonprofits increase their relational and financial capacity by facilitating connections directly to other funding sources (Minzner, Klerman, Markovitz, & Fink, 2014).

5. Types of capital in nonprofit organizations



Social media, marketing, and social capital

To be competitive, nonprofits have needed to continually adapt and evolve marketing and development approaches, particularly as social media has changed over time. In the private sector, marketing through the internet such as on Facebook, blogs, websites, and through online advertising has become commonplace, whereas nonprofit organizations are slower to utilize these technologies (Levine & Zahradnik, 2012). This may be due to lack of resources or worries that online marketing goes against the good nature of a nonprofit organization (Levine & Zahradnik, 2012). However, studies have shown that organizations can utilize the internet and social media to potentially build social capital through donor engagement, raising community awareness, communicating the organization's mission and goals, and building an organization brand or image (Campbell, Lambright, & Wells, 2014; Levine & Zahradnik, 2012; Merk, 2015; Roe & Lazar, 2014). A study examining nonprofit financial performance and marketization found that the two most important factors were having an effective mission statement and an effective nonprofit brand, relevant to the target audience, on social media (Merk, 2015). One study found that nonprofits rated in the top 20 based on their financial performance were much more likely that the bottom 20 organizations to have a media page, a donor page, and a method for potential donors to communicate with the organization via their website (Levine and Zahradnik, 2012).

Becoming more market oriented can be easily achieved through low cost changes an organization can make, such as adding an easily identifiable donor or volunteer page on their website (Levine and Zahradnik, 2012). These changes can also increase social and reputational capital. However, it can take staff time and knowledge to build an online presence. Specific challenges include allocating staff time to regularly monitor and update social media and to develop content, creating and fostering interaction amongst members on the page, maintaining political neutrality, and measuring the effectiveness of social media in engagement. While there are challenges associated with creating and sustaining social media or online presence, the research suggests there are payoffs for nonprofits that are able to do it well.

Clarify role as builder or buyer

Nonprofits need multiple types of funding support to sustain existing effective programming and to expand into other mission-aligned areas. One study differentiates these funder roles as **builders**, helping an organization expand its work, or **buyers**, providing financial support to sustain effective work already being done by the organization (Buechel & Handy, 2007). Builders are more engaged with the organizations they support, interested in learning from an organization and often, working as a partner with the organization to address challenges. The authors argue that buyers, who tend to provide financial support with unrestricted funds or support for general operating expenses, should focus on reducing barriers and requirements for nonprofits to receive these funds. In practice, however, funders in a buyer role also establish time-consuming monitoring and reporting requirements or expect organizations to report measureable impacts that ultimately limit flexibility of funding (Buechel & Handy, 2017).

Adopt grantmaking processes that reduce grantee burden

Grantmakers can also support financial sustainability by making changes in their own application and reporting requirements. Aligning proposal requirements with the size of the grant award, streamlining processes for previously funded grantees, and working with grantees proactively to ensure that requests for timeline extensions, budget modifications, or other changes are likely to be granted are among the ways that grantmakers can reduce administrative burdens that take time and resources away from mission-aligned work (Grantmakers for Effective Organizations, 2014).

> *If [the foundation is funding] 'movement building' or a 'social change agenda,' the foundation has a much more active role in helping grantees think about sustaining the work and getting them to think about it up front. If it is more practice, program, or direct-service oriented, it can play a less active role and focus more on traditional strategies of dissemination, replication, and development of products.*
>
> *– Grantee quote, Cutler, 2002*

The competitive grantmaking processes itself can also make it difficult for funders to support initiatives which are most likely to address pervasive social issues (Millesen, Carman, & Bies, 2010). Funders interested in addressing systemic problems should consider ways to change their timelines in ways that support work to implement adaptive changes over time, and strategies that encourage collaboration, rather than amplifying competition.

Challenges for grantmakers

Overconfidence in understanding nonprofit organizations' needs. A recent study conducted by the Center for Effective Philanthropy (CEP) showed a disconnect between the stated intentions of foundation leaders and the experience of grantees. For example, while most foundation leaders believe they are responsible for strengthening the organizations they fund, far fewer nonprofits reported their funders feel that responsibility (Buteau, Loh, & Ilegbusi, 2018). Similarly, while many funders reported that they understood the needs of the organizations they fund, nonprofit leaders were less likely to report that funders asked about their overall needs. The biggest barrier identified by nonprofit leaders to sharing their needs was a lack of trust with the funder. The survey results, while not fully generalizable, illustrate the importance of relationships between funders and nonprofit organizations and illustrate that well-meaning funders may not be as in tune to the priorities and needs of nonprofits as they think.

Balancing flexibility with interest in achieving impact. Just as nonprofit organizations align their work with a clear mission, many funders identify priorities in order to have impact in key areas. However, a narrow focus on specific issues coupled with establishing eligibility criteria, setting expectations in how initiatives should be designed and implemented, and determining what types of activities can be considered as grant-funded activities, creates a dynamic where funders are prescribing what nonprofit organizations need to accomplish or change in order for their work to be considered effective (Faulk & Stewart, 2017).

Difficulty measuring impact of capacity building initiatives. Currently, most evaluations of capacity building efforts rely on self-reported information from the funded organization about their capacity needs. In addition, most have difficulty differentiating improvements resulting from the capacity building effort from other factors that contribute to greater organizational capacity (Faulk & Stewart, 2017). Although there have been some evaluations of changes in skills and short-term outcomes, the degree to which capacity building efforts ultimately improved services that are beneficial to community and organizational sustainability are difficult to ascertain.

> *It is one thing, for example, to say that board development produced a more developed board, and quite another to argue that a more developed board produced a more effective organization, which in turn produced more programmatic outcomes, higher quality services, and so forth.*
>
> *– Light & Hubbard (2004), p 48*

Perceptions of capacity building assistance. Organizations may be motivated to increase their capacity because of internal realities or external pressures. Without a trusteed relationship in place and transparency between funder and grantee, capacity building support offered proactively or in response to an assessment required by the funder can be seen as an unnecessary burden or unfunded mandate by the funder (Millesen, Carman, & Bies, 2010). Grantees need to see the value in capacity building for themselves, and also have confidence that the support and assistance they receive will be beneficial for their organization.

Recommendations

The following recommendations, informed by the literature, were developed to help the Blue Cross and Blue Shield of Minnesota Foundation further improve their assistance beyond the grant activities to support nonprofit sustainability.

- **Continue to build on current efforts to establish strong relationships with grantees, listen, and respond.** There are inherent power dynamics between funders and grant recipients, which can lead to nonprofit organizations requesting the technical assistance and support that they believe a funder wants to provide, rather than the support they most need. Grantmakers need to be aware of the challenges organizations are facing in order to support sustainability in meaningful ways. It is critical for funders to put in effort to develop trusting relationships with grantees, to be aware of assumptions they may have about the needs and priorities of funded organizations, and to respond to the priorities and needs identified by grantees. A disadvantage of the Foundation's current grantmaking approach may be in focusing on 1-2 year grants, rather than on longer-term funding which would create more time for trusting relationships to develop. This should be an area of further exploration.
- **Seek short- and long-term feedback about usefulness and impact of capacity building resources provided to grantees.** Just as nonprofit organization require a growing set of skills and capacities to sustain over time, the funders – or the technical assistance providers contracted by funders – need to continue to build and refine their skills to support nonprofit capacity building. The Foundation should seek input from grantees about the quality and impact of capacity building support and help to ensure this feedback is used for ongoing improvement. Foundation staff may also need to develop additional skills or develop new partnerships with contractors who have expertise in areas that are identified by grantees as areas for growth.
- **Consider using additional funding strategies.** To help organizations achieve financial sustainability, some foundations have moved to providing low-interest loans directly or through an intermediary (e.g., community development financial institution). These types of investment can help established organizations attain the capital needed for expansion or support new nonprofits in addressing early cash-flow challenges. Recognizing that a number of grantees felt flexible funding to support general operating expenses was important to success, the Foundation could explore additional approaches to broaden how they support financial sustainability.
- **Gather additional input about ways staff and organizational self-care can be fostered.** The literature around funder assistance beyond the grant did not include a focus on self-care, which may suggest that this is a relatively new area for foundations to play a role in. As part of building trusting relationships, the Foundation can continue to identify ways that they can support self-care and well-being in all aspects of their interactions with grantees.

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