What is Capacity Building?
Capacity Building (used interchangeably with organizational development) is the process through which an organization develops the internal capacity to be the most effective it can be and sustain itself over the long term. The connection between capacity building work, organizational health and the achievement of organizational mission is the reason for pursuing capacity building goals. Capacity building strengthens organizations to survive context and internal changes, improve the quality of the organization’s work, raise resources, create an environment where people feel valued and many other reasons.

Organizational Health: Components of Effective organizations
The components of effective organizations include the following:

- **Vision, Values and Mission**
The values are the core beliefs that shape the vision and guide the organization’s day-to-day actions. The vision describes an organization’s preferred future, the future its board staff and constituents want to help create. An organization’s mission, the role it will play in creating the preferred future, flows from its vision and values. The mission should reflect a realistic but farsighted determination of who the organization is, who it serves, what it does and what it can accomplish.

In strong organizations, vision, values and mission are shared, understood and embraced by the board, staff and constituents. They are the touchstone for every organizational decision. They are reflected in policies, procedures and practices. Creating and continually assessing and reaffirming its vision, values and mission may be the most important capacity building work an organization can undertake.

- **Governance**
How an organization makes decisions is a critical issue in its effectiveness. The most effective organizations build and nurture trusting relationships among their board, staff and constituents as the basis for making and acting upon good decisions. Responsible governance by the board and effective day-to-day management by the staff are equally important to organizational effectiveness.

Capacity building work related to governance may include clarifying board roles and responsibilities, negotiating relationships between board and staff, understanding and
addressing racism and other forms of oppression, engaging in racial equity learning and practice and developing skills of individual board members.

- **Strategic Thinking and Planning**
  A strategic plan (strategic directions plan) is a roadmap for an organization’s work. Effective organizations periodically take stock of their strengths, weaknesses and the environment in which they work in order to set clear goals, objectives, strategies and tactics. The strategic plan is a living document and informs annual work plans and forms the basis for periodic evaluations of staff, board and programs. However, the strategic plan should be flexible enough to respond to new realities. **The organization recognizes the importance of adapting to change, internally and externally, to keep its work effective.**

- **Program Development and Implementation**
  A thoughtful strategic plan sets the direction for an organization but the process of developing and implementing programs is equally critical to organizational effectiveness. A sound idea can fail if the organization does not pay careful attention to identifying desired outcomes, developing appropriate activities and giving staff the appropriate skills to do the work. **Likewise, an effective program will not remain effective if the organization does not monitor results and adapt the program to new information and lessons learned.** Program planning is the responsibility of the staff but should involve constituents to whom the program and organization is accountable. In effective organizations, program development, evaluation and strategic planning are interconnected for continuous learning.

- **Evaluation, Learning and Accountability**
  Effective organizations are active in evaluating their work and learning from success and failure. They understand that evaluation is not something done to them, but done by them to improve their effectiveness, remain accountable to the people they serve and to share what they have learned with colleagues in other organizations.

- **Human Resource Management**
  People are the most valuable resource an organization has. How they are developed and managed is critical to their productivity and to the organization’s success. Organizations often place people in positions that require skills they do not have and provide little opportunity for them to get the training and mentoring they need to develop the required skills. Nonprofit managers, often untrained in human resource management need basic training. Organizations may lack basic elements of sound personnel policies. Tight budgets and ambitious missions leave many organizations with policies and an organizational culture that accepts low salaries and long hours. **Effective and sustainable organizations actively support the principle that people must be paid well, have good benefits, take care of themselves and not be exhausted by the work.**

- **Organizational Culture**
  Organizational culture includes written and unwritten rules that shape and reflect the way an organization operates. It is the environment in which decisions are made and conflicts are
resolved. It is the invisible way the organization works. In effective organizations, the physical and spiritual expressions of organizational culture are in alignment with the organization’s core values and held by the board and staff of the organization.

- **Management Systems and Structures**
The management systems and structures are the formal and visible ways the organization does its work. Organizations develop systems and structures for governance, human resources, information management and technology, communications, finance, training and development, planning and evaluation and much more. In effective organizations, these systems and structures are aligned with the organization’s vision, values and mission.

- **Legal, Compliance, Fiscal Management and Public Accountability**
As 501©(3) organizations, all nonprofits have certain fiscal and legal requirements. Boards of directors are ultimately responsible for legal compliance; they must understand federal, state and local requirements and exercise appropriate oversight of staff to ensure compliance. Systems must be in place to offer early warning signals about legal and fiscal problems. Effective organizations have boards that understand and take seriously their legal and fiscal responsibilities. The staffs and boards operate with clear checks and balances.

Less clear but equally important is an organization’s obligation to the “unenforceable” laws of ethics. Effective organizations are accountable to ethical standards that may not be legally enforceable but are consistent with the organization’s values. They operate within policies for conflicts of interest, reports to funders with openness and honesty, are good stewards of resources and take seriously their accountability to the public. Effective organizations must ensure that boards and staffs develop and use such standards.

- **Resource Development**
Organizations that have all the other core components in place cannot be successful without resources to do the work. Effective organizations have clear plans for resource development and the human capacity to implement those plans. Sustainable resource development requires clear program and financial objectives, a long-range plan and an annual plan for fundraising, active and trained board members, skilled staff and effective systems for record-keeping, communications, evaluation and reporting.

- **Constituent Relationships**
This component permeates all other core components in effective organizations. An organization’s constituents are at the heart of its work, serve on the board, are involved in strategic planning, participate in programs and evaluation and are its most important “public.” Effective organizations are serious about their accountability to their constituents. Close relationships with constituents are woven into the fabric of the organization, providing day-to-day and long-term accountability.

- **Strategic Communications**
Communications is an important capacity for organizations to build and maintain. **Effective organizations have strategic communications plans that tell the organization’s story and engages constituents, funders, the general public and others.**

- **Collaboration/Coalition Building**  
  Another aspect of an organization’s relationship with its community is the way it collaborates with other organizations. No single organization can effect lasting change in a community. Organizations find it useful to collaborate by planning and crafting strategies together, sharing resources and using complementary tactics to amplify their work. Organizations that do not collaborate risk working at the margins and limiting their impact. **A collaborative network/coalition increases changes to affect public policy, influence public opinion and make lasting change.**

Collaboration/coalition building takes time. People and organizations have a difficult time working across differences of race, class, issues, strategies, ideology and other differences. These differences can obscure the common cause that brings organizations together in the first place. **If organizations are effective at building understanding and mutual respect, the prospects brighten for a broad-based and sustainable movement for change.**