

## **‘Capacity building’ in the third sector and the use of independent consultants: evidence from Scotland**

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### ***Abstract***

The first part of this paper addresses current approaches to capacity building for the third sector in the UK, which is targeted at the level of communities, third sector organisations, and the sector as a whole. The reasoning behind different types of intervention is explored. The second part of the paper presents some findings from a qualitative evaluation of one approach to institutional capacity building, involving consultant input. These focus on the expectations of charities receiving support, the agenda-setting process, outcomes and obstacles to success. The discussion highlights some general principles for consultancy work, and suggests that further research is needed to understand funders’ motivations for developing capacity building programmes.

## ***Introduction***

‘Capacity building’ is an often-used term which incorporates broadly differing concepts and approaches. As yet, relatively little research exists on the form that capacity building takes in the third sector, and its potential outcomes. Two key questions have been identified: who should be responsible for providing capacity building to the sector?; how can this best be achieved? (Backer, 2001). The question of responsibility for capacity building is not easily resolved. The first part of the paper describes investment in UK third sector capacity which has come from various quarters, including government, intermediary bodies, and grant-making trusts. The second question is addressed using findings from a qualitative evaluation of a capacity building programme run by one of the largest grant-making trusts in Scotland - the Lloyds TSB Foundation for Scotland. Given the myriad of approaches to capacity building, the sector needs to learn more about what is appropriate practice for strengthening organisations at different stages of development and operating under different sets of circumstances. It is hoped that the evidence from this evaluation might contribute to this aim.

## ***Strengthening the third sector in the UK***

Capacity building has particular significance for third sector organisations (hereafter TSOs) firstly because the majority are relatively small, running on limited resources. It is important, therefore that they are able to make best possible use of their existing capacity. Capacity building is important also because the environment in which voluntary and community organisations operate is characterised by change and uncertainty. This is evidenced by trends such as increasing regulation and accountability requirements, financial insecurity and increasing competition for resources, all of which pose challenges for service delivery, management and administration. External support may contribute to empowering an organisation so that it can best achieve its goals, or enable an organisation to take full advantage of opportunities for growth and development, whilst maintaining its sustainability and autonomy.

There has also been increased demand for TSOs to implement government policies, through participation in the implementation of national social exclusion policies such as New Deal for Communities, Sure Start, and action zones in education, health and employment (Kendall, 2003). Moreover, central government continues to promote the involvement of the voluntary and community sector in shaping and delivery of public services (HM Treasury, 2002). This shift of responsibility for service provision raises concerns regarding the capacity of the third sector to respond. Commitment has been expressed by the government to maximising the sector's potential to engage in a meaningful way, and removing barriers so that the sector can make a distinctive contribution.

Capacity building interventions have been targeted at the level of community, organisation, and sector, although the boundaries are often blurred. At community level, interest in democratic renewal has contributed to a focus on the role that communities play in local governance (Diamond, 2004), and there is an argument that community capacity building is necessary for the development of democratic participatory processes at local level (Docherty et al., 2001). Understanding of 'community' capacity building is relatively underdeveloped, however. Some approaches are concerned with developing voluntary organisations on the assumption that these provide the main vehicle by which individuals participate in community affairs. Other approaches concentrate on the organisation's role in developing the communities with which they are involved.

Both approaches inform central government's support of community capacity building as part of its commitment to civil renewal. Community capacity is defined here in terms of "... the capacity of the people in communities to participate in actions based on community interests, both as individuals and through groups, organisations and networks" (Civil Renewal Unit, 2003: p. 10). Within this context there is a need to examine closely the concerns of local people, avoiding the notion of community as a homogeneous entity, possessing shared values and needs (Shirlow and Murtagh, 2004).

Building capacity at sectoral level is predominantly linked to the development of intermediary organisations. These have developed in a fragmentary way and there have been calls from within the sector to improve generic and specialist infrastructure at local, sub-national and national levels (National Council for Voluntary Organisations, 2003). The Active Community Unit identified six areas of concern: volunteering, black and minority ethnic communities, rural communities, social enterprise, community development, ICT (Active Community Unit, 2003).

Capacity building in the third sector is most commonly associated with institutional level capacity. The underlying assumption here is that capacity is linked to effectiveness: an organisation needs to optimise its structural and operational capacity in order to achieve its objectives or mission effectively. Capacity is multidimensional, and organisational capacity incorporates financial capacity, human resources capacity, and structural capacity such as relationships with different stakeholders, equipment and facilities, and management systems (Canadian Centre for Philanthropy, 2003). Organisations draw on these pools of resources to varying degrees at different times in order to further their goals.

Building capacity at institutional level might take in skill transfer among staff and volunteers, introduction of new organisational structures or procedures, or improvements to those that are already in place. Central government's review of the role of the voluntary and community sector in service provision takes both workforce development and institutional design into account. This states that building capacity for voluntary organisations is about putting in place "...the skills, knowledge, structures and resources to realise their full potential" (HM Treasury, 2002: p19).

Intermediary organisations tend to focus predominantly on capacity for workforce development. A recent survey carried out by a national intermediary indicated that although there is strong commitment to development of staff and volunteers, this is circumscribed by organisations' ability to purchase training or release staff for sufficient periods of time (National Council for Voluntary Organisations, 2003). This study also

noted that future skills requirements were linked to involvement in the delivery of services, and the increasing complexity of the operating environment. In a similar vein, a survey of the voluntary and community sector in an area of the North East of England, pointed to the increasing responsibility that is placed on trustees in relation to contracting and management of significant sums of money (Research Solutions, 2003).

Capacity building initiatives introduced by charitable trusts and foundations have tended to target the institutional level. For foundations, the motivation to strengthen the organisations that they support can be associated with the concept of leverage (Backer, 2001). This refers to enhancing the impact of the resources that foundations have available for allocation via leverage of additional resources from other sources. The idea is that capacity building enables TSOs to develop their own resource strategies or to enhance their leadership and management abilities, which in turn improves their ability to attract other funders, thus maximising the foundation's initial investment.

### ***Background to the evaluation***

The evidence presented in this paper is drawn from an evaluation of one type of capacity building initiative developed by the Lloyds TSB Foundation for Scotland. This targets institutional level capacity using the services of independent consultants. This initiative was developed in 2000 as a separate programme to the Foundation's existing Standard Grants Scheme which makes awards based on social need and community benefit to Scottish charities. It supports growth and development activities and addresses short-term skill gaps by making grants for purchase of consultant services. Awards made as part of the capacity building programme cover the total cost of the consultants' fees.

The Foundation has selected a panel of external consultants, all of whom have experience of working with nonprofit organisations. Consultants assess applications and undertake consultancy work on a range of issues including financial management, resource and financial planning, strategic planning, governance issues, staff development, marketing and communications, and information technology. The Foundation acts as a facilitator

and the advice given by consultants is of an independent nature. The programme is advertised at local level, and workshops are run throughout Scotland for potential applicants to provide information on the scope of the programme and support the application process.

The Capacity Building Grants (hereafter CBG) programme operates on a smaller scale than the Standard Grants programme. Approximately £1 million has been awarded to date as part of the capacity building programme, compared with over £14 million over the same period in standard grants (Gibb and Reid, 2004). The mean capacity building award is just under £4,000, and the mean number of days consultancy recommended is 7.5. The majority of successful charities worked with one or two consultants, although in some cases three or four consultants were employed. The most common issue addressed by consultants was strategic planning, followed by governance issues, financial controls and fundraising, marketing, IT, and staff development. Around a fifth of successful charities wanted to address just one area, while around three quarters dealt with two or three topics simultaneously.

Evaluations are carried out by the CBG Co-ordinator at the end of every consultancy. On the whole, this internal evaluation has indicated very high levels of satisfaction among grant recipients with the application process, the support provided by the Foundation, and the services of the consultants. There is a concern, however, that the lack of criticism of the programme may be linked to the desire to please the Foundation, given that many of the participating charities are likely to make future appeals to the Standard Grants Scheme. To compensate for this, an external evaluation was commissioned from the Department of Urban Studies at the University of Glasgow to provide independent research evidence that will inform future development of the programme by the Foundation. The key research question concerned the extent to which there were sustainable changes to organisational capacity as a result of the input of the consultants.

## *Methods*

Evaluation of the CBG programme posed some challenges. Firstly, how can success be measured? Secondly, to what extent can success be attributed to the intervention? Due to variation in terms of the nature of the topics addressed, the strategies employed by the consultant, and the existing level of skills and/or knowledge within the charities, it was not possible to apply a common set of outcome indicators to each setting. Depending on the local circumstances, specific types of outputs and outcomes were intended. Furthermore, capacity building is itself a process, and different impact measures are required at different stages of the consultancy. For this reason a qualitative approach was favoured, focusing on the views of those involved within the participating charities. The objectives were to identify the strategies for building capacity used by the consultant(s) in a particular setting, and to specify the participants' expected impacts at the outset of the exercise, comparing these to the actual changes that took place in the organisation. Unintended changes could also be identified using this approach.

Semi-structured qualitative interviews were carried out in twenty recipient organisations to examine firstly the consultancy process in order to gain insight into what happens and consider ways to improve the process, and secondly to assess the outcomes of consultant interventions. All charities were situated in central Scotland, and efforts were made to select organisations according to the criteria set out in Table 1. Criteria relate to the nature of the consultancy, and the characteristics of the charity.

So that longer-term outcomes of the consultancies could be examined, half of the organisations selected had completed work with consultants. The remaining organisations were part-way through a consultancy which allowed for a more immediate examination of process issues. Charities were also selected to represent the range of topics covered by the CBG programme, and to include cases with varying levels of input from consultants. The organisations selected ranged from those with a small income, operating informally with no paid staff, to professional charities with a multi-million pound turnover.

**Table 1: Selection of organisations**

<i>Criteria</i>	<i>Rationale</i>
Status of consultancy	<ul style="list-style-type: none"><li>• to include completed consultancies so that longer-term outcomes can be assessed;</li><li>• to include consultancies that were part-way through in order to focus on process issues, and to compensate for recall difficulties where there was a gap between completion of the consultancy and the research.</li></ul>
Consultancy issues	<ul style="list-style-type: none"><li>• to ensure that each of the topics covered as part of the CBG programme are examined, since the nature of the outcomes are likely to vary according to the issues being addressed.</li></ul>
Extent of consultancy	<ul style="list-style-type: none"><li>• to examine any variation in consultancies involving:<ul style="list-style-type: none"><li>- a single topic area / multiple topics;</li><li>- one consultant / more than one consultant;</li><li>- awards for different numbers of days, and lasting over different periods of time.</li></ul></li></ul>
Size of organisation	<ul style="list-style-type: none"><li>• to include charities with different levels of human and financial resources in order to investigate whether existing capacities affect the intervention or its outcome.</li></ul>

## ***Findings***

### *Approaches to diagnosis of the problem and setting the agenda for the consultancy*

The research first of all examined charities' reasons for applying for a capacity building award, and their expectations in terms of what they wanted to achieve from the consultancy. The study also looked at the way in which objectives for the consultants' input were determined, since this has relevance for the ownership of the process.

There were a variety of reasons for submitting an application for a capacity building award, and these commonly affected the way in which the agenda for the consultancy was determined. For some charities, the availability of the capacity building grant was seen as an opportunity to review the organisation's practices and to reflect on whether these were the most appropriate for service users. The hope was that the consultancy would enable various stakeholders within the charity to take time out to address problems that had surfaced over a period of time. One charity trustee commented:

“We thought for a while that we should review things that we do, and often they are the kinds of tasks that go on the backburner because of getting caught up in the day-to-day running of things. So I think we saw it as an opportunity to have some external help to get us to look at our practice and develop the service.”

In other cases the charities had been experiencing specified problems that were reaching crisis level. For one charity, lack of focus on their central mission had resulted in their taking on additional work in order to maintain financial security. This led to rapid growth without consideration of the charity’s capacity to cope with additional staff, increased regulation and, importantly, their ability to remain financially sustainable at this level. The Chief Executive felt that the charity was:

“...expanding without any thought for the future – as opportunities arose we grabbed them. We have gone from an organisation that needed not £10,000 in the bank as reserves, but £200,000.”

Often when this was the case, participants did not have clearly defined expectations for the consultancy. This resulted in hopes that were either too expansive, covering an array of practice and strategic issues, or objectives that did not reflect the real needs of the organisation at the time. In such cases consultants tended to play a greater role in helping the charities identify priorities for the consultancy, and to set the objectives for the work. Indeed, this agenda setting stage was frequently perceived as a benefit in itself as the participants learned about the strengths and weaknesses of the organisation.

For some charities the decision to apply was more externally driven, for example by an organisational review initiated by their funders. In these cases there tended to be a fixed output to be achieved, addressing specific points raised by previous work. For example, one charity was required by an existing funder to produce a business plan before receiving additional funds.

### *The role played by consultants*

Consultants attempted to meet the charities’ requirements in various ways. Three general

approaches to the intervention were identified: facilitator; mentor; trainer. Different combinations of these approaches were evident in different circumstances and, depending on the particular needs of the organisation, the consultants acted more as a facilitator, mentor or trainer.

Facilitation aimed to empower the organisation to achieve its own goals. This tended to involve group strategies for brainstorming and reflection on current practice. Rather than introduce new information or transfer specific skills, the aim was to allow a range of people involved in the charity to clarify their own ideas about particular issues.

Mentoring centred around offering practical guidance to individuals, and supplying feedback on actions subsequently taken. This approach tended to involve key staff members, who often held much of the expertise and knowledge relevant to the area of consultancy already. There may, in addition, have been one or two meetings with other staff members and/or members of the governing body, but the bulk of the consultancy involved one-to-one support. This practice was successful in terms of the development of expertise for those individuals who worked closely with the consultants. Participants who were mentored by the consultants expressed a high level of satisfaction. This was described as a "...satisfying and effective way to work...", which generated a high level of commitment and was experienced as a shared process. However, there was little evidence of these key individuals disseminating what they had learnt throughout the organisation so that new knowledge/skills might be retained. There is a danger that this expertise may be lost to the organisation on the departure of these key individuals.

The training approach involved knowledge transfer which stopped short of providing practical assistance. This approach was more conducive to dissemination throughout the charity. An example of this was a training day organised for managers of branches of one charity, focusing on developing fundraising strategies. In this way, the consultant passed on information throughout the whole structure of the organisation, but the potential for depth of learning was not as great.

### *Impact of the consultant interventions*

A difficulty with impact evaluation is to be able to attribute any changes in the organisation to the actual intervention. However, there is evidence of achievement of particular outputs that were expected from the consultancy. For instance, some charities completed operational plans and strategic plans, others put together funding bids based on knowledge and skills gained by working with the consultants, and others moved forward with IT systems that would enable more efficient financial controls, avoiding duplication of effort in different parts of the charity.

The outcomes of the consultancy can be assessed in terms of what these outputs mean for the charities – how are they able to use them to their advantage? Charities were able to use business plans when applying to funding bodies as evidence of their aims, objectives and practices. Strategic plans enabled charities to prioritise their goals and be realistic about what could be achieved within a certain time frame. This was thought to have great value as it enabled efforts to be targeted to areas of greatest perceived need.

Change in approaches to fundraising was evident, although it was not possible to tell whether the techniques adopted were making a difference. Fundraising techniques that were being put into practice included use of a fundraising calendar which listed the submission dates of the most relevant grant-making bodies. Perhaps more importantly, interviewees felt they had more awareness of how to approach funders with realistic aims, and this resulted in increased confidence in their approach to fundraising.

In addition to transfer of skills and provision of information by consultants, the introduction of an external perspective as part of the process was viewed as useful in itself. The consultants input commonly reinforced existing attitudes and encouraged reflection on the effectiveness of the organisation's structure and procedures in relation to its central mission or goals. In some cases, the consultant's input served to legitimise change. The Chief Executive of one charity had struggled to get new ideas across to the management committee. He commented:

“It was better for me to take a step back and let an expert come in... with a clear mind and no personal agenda.”

Overall the expertise of consultants was extremely well received. Some charities took advantage of the opportunity to extend the consultants’ remit by paying themselves for extra work. For instance, one charity asked the consultant to organise an away day for management committee members, with the aim of further improving fundraising strategy. They felt that the consultant already knew the organisation well and they would get good value from them.

*What factors affect the outcome of the intervention?*

Although there was considerable evidence of the benefits of the consultancy, certain obstacles to progress were highlighted by interviewees. Firstly, the time lag between submitting the initial application, this being successful and the start of the work with the consultants, meant that changes in the needs of the organisation had to be accounted for. Tremendous change had occurred within some charities while waiting for the process to move on, including turnover of key staff. In one organisation, the consultant was due to begin work shortly after the manager who had submitted the application had given up his post. The incoming manager felt that he started at a disadvantage as he had not been part of the application process and had not had time to assess the needs of the organisation for himself.

Another obstacle was the difficulty of fitting in the additional work required by the consultancy. Some felt that they were not able to use the consultants’ time to the best advantage because of existing pressures on their own time. For example, a member of staff whose duties included income generation, explained:

“I’m still not making quite the impact on fundraising that I’d like to but I don’t think that’s anything to do with the quality of training that was offered. It’s a combination of us not being focused enough on doing that because there are other pressures on us.”

There was some frustration with delays from both the consultants' side and from the charities' side. It was common for charities to find that other areas of work would become a priority at particular times and the consultancy work would have to be put on hold. The flexibility of the programme has proved to be advantageous where this occurred. Also, a few charities were able to minimise this problem by having a member of staff dedicated to liaising with the consultant and monitoring progress.

Mismatch between the expectations of the charities and the level of support that could be provided by consultants in a limited period was also a barrier to success. Interviewees were keen not to portray this as a criticism of the consultants' input, but rather as an inevitable part of the consultancy process, given its imprecise nature. A few interviewees noted that existing organisational capacity was more limited than they had realised at the outset of the process, and that this held them back from achieving the intended outcomes:

“It was like walking along on a path and all of a sudden the ground starts to open up in front of you. You start to find all these flaws in the stuff underneath the thing we were trying to do or demonstrate.”

“I'm working in an organisation where some of these fundamental things are quite primitive, and the consultant's advice was entirely sound and what we wanted to do – but actually we've had to do a lot of groundwork before we could implement his advice. In a more mature organisation where things are done in a more managed way I could go and get that information, but here I can't. I've had to go and create these systems.”

There is a potential paradox concerning implementation of consultants' recommendations in that, having laid the foundations for improvement, additional funding may be required to make this happen. Implementation of the consultants' recommendations was not always possible due to lack of resources. In one case, the consultant's recommendation for a new financial control system that would offer a solution to the problem of duplication of effort among different branches of the charity was not implemented. Although the charity had funds to purchase the software that was recommended, staff were yet to find funding to carry out the required training.

## *Discussion*

Given the diversity of organisations requiring assistance, the range of issues that are addressed by consultants, and the potential for local conditions to act as barriers to progress, the task of making recommendations for future consultancies presents a challenge. Nonetheless, this research has highlighted a number of practice issues that have general application in relation to consultancy work.

Firstly, management of charities' expectations is important for the success of any intervention. This is especially relevant for smaller TSOs, which were less likely to have experience of working with consultants. Their aspirations about what could be achieved were frequently uninformed and unrealistic, and perhaps one of the greatest difficulties faced by the smaller charities in the study was prioritising their capacity building needs so that real improvements could be achieved. While there may be valid needs for support in different areas, a balance has to be struck between addressing all perceived needs and focusing on key areas to ensure the most effective benefits.

Secondly, participants should be aware from the outset that effective capacity building involves a considerable amount of effort and commitment. Inexperience on the part of the participating charities can result in underestimation of the amount of work that is required. Furthermore, there can be a tension between hoping for a fast resolution to a problem and the actual pace of improvement. This was not necessarily experienced in a negative way over the longer term by those participating in the current study. Some participants noted that the extended contact with consultants produced greater gains than they had expected overall, whilst others acknowledged that they had unrealistic timescales in mind at the outset. Charities should consider how they will manage the additional work created by a capacity building intervention.

A third point concerns the extent to which development was achieved for the organisation as a whole which was determined, in part, to the approach adopted by the consultant. In general terms, facilitation and training can produce organisation-wide benefits, whilst the

initial benefits of mentoring are chiefly for individuals. Charities should consider the suitability of the level at which support is aimed, and whether it is possible for gains to be maximised via dissemination of information or further training.

Fourthly, it is important to consider the ownership of the process. The relationship that develops between 'expert' consultants and participating charities should be carefully monitored to ensure that the routes chosen are the most appropriate for the charity. Capacity building should be empowering for the recipient organisation, and while the consultant may offer an informed perspective, this should not diminish the relevance of existing organisational knowledge and resources.

This research looked at the benefits of capacity building interventions from the participating charities' perspective, but further work is required to assess the efficacy of the funders' approach. For the Foundation which funds the capacity building programme examined here, there is a difficult transition when dealing with applications for the main grants programme and GBG awards. One aspect of the Standard Grants assessment is the extent to which applicant charities are financially sustainable, and therefore strong enough to deliver proposed services. Particularly vulnerable organisations may be rejected because the Foundation aims to be prudent in its distribution of funds. The key difference with the CBG programme is that it aims to support organisations which are experiencing periods of vulnerability. This raises the question as to whether foundations should concentrate their efforts in a specific area. The processes involved in capacity building investment strategies may be at odds with project based funding that emphasises benefits to the wider community as opposed to institutional development.

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