Building Adaptive Capacity:
The Quest for Improved Organizational Performance

By Carl Sussman
Principal, Sussman Associates
Newton, Massachusetts

Prepared for
Management Consulting Services
95 Berkeley Street, Suite 208
Boston, MA 02116

Acknowledgements

Building Adaptive Capacity:
The Quest for Improved Organizational Performance

By Carl Sussman

The Change Makers

Coping with change effects organizational performance the way exercise contributes to personal fitness. It begets organizational strength, stamina, and agility and leads to enhanced results. Nonprofit management practitioners have begun to recognize that an organization's ability to challenge its own established ways of thinking and doing things and to successively craft and adopt more effective means is a distinct form of performance-enhancing organizational capacity: Adaptive capacity.

The evolution of nonprofit capacity building has followed an arc. For many years, maximizing programmatic effort was the most straightforward metric of charitable results. Hence, the nonprofit sector managed and minimized administrative overhead expenditures to avoid any appearance of waste. The legacy of administrative parsimoniousness survives in the culture of many nonprofit organizations and in the grantmaking practices of some foundations.

More recently institutional philanthropists and academics have recognized that organizations are themselves important contributors to the process of generating social value: Starve the organization by under-investing in core organizational functions and you sacrifice productivity and undermine the grantee's long-term stability. This recognition has influenced the growth of management support organizations and a wide variety of management capacity-building initiatives.

The most recent thinking about organizational capacity reflects the growing interest in performance – the organizational gestalt that yields consistent and even continuously enhanced results. The search for enhanced performance, the argument goes, can be found in an organization's appetite for change. In a sector traditionally buffered from the for-profit sector's torrid competitive pressures, nonprofits are increasingly discovering that they too need to become more agile to cope with the complexity of their operating environments and the quickening pace of change in the form of heightened expectations, demands for greater accountability, and growing competition. Organizations in the nonprofit sector can no longer insulate themselves from external performance pressures. Nor can they document effort as a proxy for results. Nonprofit organizations increasingly face adaptive challenges requiring them to abandon the familiar and routine. Instead, they need to develop the capacity to harness knowledge and creativity to fashion unique responses, stimulate organizational learning and sometimes embrace transformational change. This *adaptive capacity* is a critical dimension in our growing understanding of organizational performance.

Ability

"Capacity" is simply the ability to do things. To a significant extent, capacity is developmental in the sense that it is in part a function of age and size: Organizations acquire various abilities in the course of remaining extant and growing. Organizations can also lose capacity. Staff turnover and the failure to update technology systems are common examples of ever-present capacity-eroding forces. Thus building capacity is an ongoing process: There is no final destination. Nor is there a universal standard – a single "right way"— that all organizations should operate: Each organization faces different circumstances. An organization's capacity needs at any particular moment will depend on a wide variety of factors. So how are practitioners and funders to think about the important task of building capacity and improving performance? One helpful way to approach capacity building is to divide it into its constituent parts. In their important book on the subject, *High Performance Nonprofit*, Christine Letts, Bill Ryan and Allen Grossman came-up with a useful three-part schema; a categorization we have adopted albeit with minor alterations.[1]

Programmatic capacity is an organization's ability to carryout its primary value-creating charitable activities: staging concerts, sheltering the homeless, producing research findings, teaching classes, advocating for environmental-friendly policies or exchanging dirty needles for sanitary ones. The fundamental purpose of programmatic capacity is to create the social value that justifies an organization's tax-exempt status. Programmatic capacity enables an organization to create more value because it has more experienced staff or a better service delivery model than its competitors.

Organizational capacity refers to those attributes – structures, functions, systems, procedures and culture – that promote order and predictability, thereby helping to maintain the collective effort and the corporate entity. For example, financial accounting systems enable organizations to regulate critical resources and manage financial risks to their survival. Similarly, mechanisms that allow organizations to handle leadership succession and personnel transitions are manifestations of organizational capacity, creating operational continuity. In other words, organizational capacity endows organizations with a measure of stability and endurance. Its presence enables an organization to regulate itself, generating and allocating human, financial and informational resources in support of its primary value-creating activities. With the most obvious exception of strategic planning services, much of the training and consultation in the nonprofit management assistance field involve organizational capacity-building. Financial accounting systems; grant-writing skills development; technology utilization and supervisory skills trainings; succession planning, and staff and board development are all staples of the management assistance field and build organizational capacity. Most organizations, if they survive long enough, discover they need organizational ballast.

---

[1] Christine Letts, Bill Ryan and Allen Grossman *High Performance Nonprofit Organizations: Managing Upstream for Greater Impact, John Wiley & Sons, Inc., New York, 1999.* The author has taken the liberty to use different terms and slightly redefine Letts, et al's definitions of "program delivery" and "program expansion" capacity.

Organizational capacity provides that stability and order needed to persist as an operating corporate entity.

To advance their missions nonprofit organizations need to improve performance and anticipate and respond to changed circumstances. This requires another type of capacity; ***adaptive capacity***.[2] While organizational capacity serves the strategic purpose of stabilizing organizations and creating order, adaptive capacity involves the complementary and often destabilizing quest for change in pursuit of improved performance, relevance and impact. Organizations that possess adaptive capacity are very focused on and responsive to what is happening outside their organizational boundaries. They consciously interact with their environments which, in turn, provide information-rich feedback, stimulate learning, and ultimately prompt improved performance.

Thus, effective organizations have the capacity to generate:

❑   **Value**: Through *programmatic capacity*, the ability to create value in fulfillment of a mission.
❑   **Stability**: Through *organizational capacity*, the ability to organize and deploy resources efficiently and to promote stable operations.
❑   **Change**: Through *adaptive capacity* the ability to advance the organization's mission by strategically changing in anticipation of and in response to changed circumstances and in pursuit of enhanced results.

Picturing Internal Capacity

One way to picture organizational capacity is to draw a Venn diagram with three intersecting circles depicting programmatic, organizational and adaptive capacity. By varying the relative size of each circle and their alignment, you can visually describe an organization's capacity. For example, by varying the size of each sphere you can
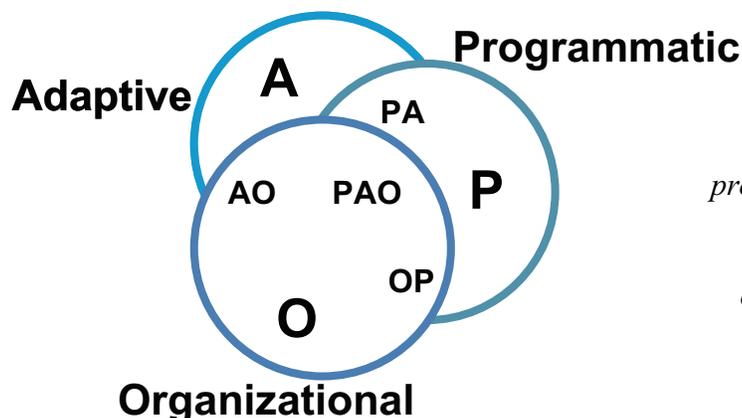
Figure 1: A Venn diagram captures the way programmatic, organizational and adaptive capacities interact to create organizational effectiveness

---

[2] Unfortunately, the word "adapt" suggest reaction or accommodation to circumstances. It carries the chance connotation associated with Darwinian process of adaptation. Organizations need to develop the capacity to generate change, not simply to accommodate external conditions. Indeed reactive tactical adjustments to environmental circumstances, because they are primarily motivated by a desire to stabilize and restore equilibrium conditions, have attributes of organizational as well as adaptive capacity. Thus, as

represent the *capacity balance*. An organization with limited adaptive capacity relative to the other two areas of capacity could be represented by a Venn diagram with a smaller adaptive capacity circle than the other two. By varying the extent to which the circles overlap, as represented by the regions labeled AO, PA, OP and PAO, these Venn diagrams also depict *capacity alignment*. A high degree of overlap or alignment indicates how these capacities operate to support and reinforce each other to advance mission. A few examples illustrate these concepts.

❑ **Capacity Balance –** Small and young nonprofit organizations commonly devote all their resources to delivering services. As a result, they display far more programmatic capacity relative to either their adaptive and organizational capacities (see figure 2). Their energetic focus on mission is refreshing and inspiring.
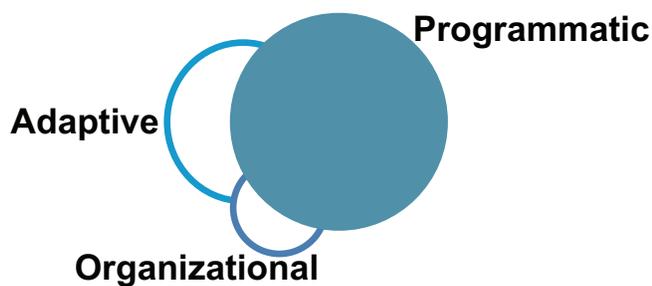

Programmatic

Adaptive

Organizational

Figure 2: A program-focused organization

However, these program-centric nonprofits are vulnerable because of their limited organizational infrastructure. They may be high-energy and mission-focused, but, like a stool with only one strong leg, program-centric organizations are inherently unstable. For example, with strong backing from members of her community, a woman formed a nonprofit organization and purchased a lackluster child care program. She made physical improvements, recruited young and energetic staff and provides extra services to low-income single parents. She quickly became known to other child care directors in her state impressed with her zeal. Her compelling vision and commitment attracted a number of college and graduate students to her staff, enabling her to secure highly motivated teachers with very modest salary expectations. It many ways, this mission-oriented, rather than compensation-oriented, hiring practice reflects a modest level of adaptive capacity that can be native to young organizations.

With limited business management experience, the child care director entrusted financial affairs to a bookkeeper. Meanwhile, she rolled-up her sleeves, maintaining close contact with parents and providing an extra pair of hands in the classrooms. Unbeknownst to her, the bookkeeper, either because of inexperience or a cash shortage, didn't deposit payroll tax deductions with the government. Many months later the center now has a repayment plan in place with the IRS, but the center has accumulated other unpaid creditors, a bank loan secured with second mortgages on the homes of three board members, 6 weeks worth of unpaid payroll, and a variety of

used here, adaptive capacity also refers to the ability to generate or initiate change and even to challenge circumstances external to the organization.

miscellaneous other debts totaling more than a quarter million dollars. The local weekly newspaper carried a banner headline over one employee's disillusioning account of payless paydays. It is hard to image how this gathering crisis will resolve itself, but organizational survival is unlikely.

This is a particularly extreme and tragic example of capacity being critically out of balance. In this case, the center lacked the threshold level of organizational capacity to manage minimal and routine business transactions. Less dramatic stories are common and not only in the nonprofit sector. Small organizations cannot be expected to mimic the sophisticated organizational systems of large and complex organizations. However, they do need to accrue the organizational, programmatic and adaptive capacities to meet the challenges they face as they grow and mature and to build these capacities in relation to each other. In other words, organizations should seek to maintain a judicious balance between their level of capacity to create social value, secure organizational stability, and adapt to their complex and changing environments.

The capacity imbalance can also involve inattention to the programmatic or adaptive arenas. A community-based organization does community organizing, sets-up crime watches, sponsors code enforcement activities, develops housing, and plans retail district revitalization projects. Yet it is an organization that has become increasingly insular, hiring from within, often eschewing external searches altogether; reelecting the same board leaders year after year, and combatively challenging funders and others who have questioned the apparent parochialism of its culture. It derives half of its income from a public sector contract renewed on a noncompetitive basis each year. Although in its youth it had a reputation for innovative programming and an active membership, today neither is true. This is an organization almost devoid of adaptive capacity. As organizational insiders replace more experienced and better qualified staff, neighborhood residents are less inclined to mobilize around the organization's leadership on land use and other neighborhood issues. It has begun to lose programmatic capacity and wields less political influence than it once had.

A Venn diagram depicting this organization's capacity balance might resemble the child care center's except that the adaptive capacity circle would be smaller than both the organizational and programmatic capacity ones. Unfortunately, diagrams such as these are static representations and cannot capture the group's loss of both organizational and programmatic capacity.

❑ **Capacity Alignment** – The degree of overlap between the three circles captures another characteristic of capacity: the extent to which an organization's capacities work together, contributing to organizational effectiveness by reinforcing each other to advance mission. In general, tight alignment (right in figure 3) is preferable to loose alignment (left).
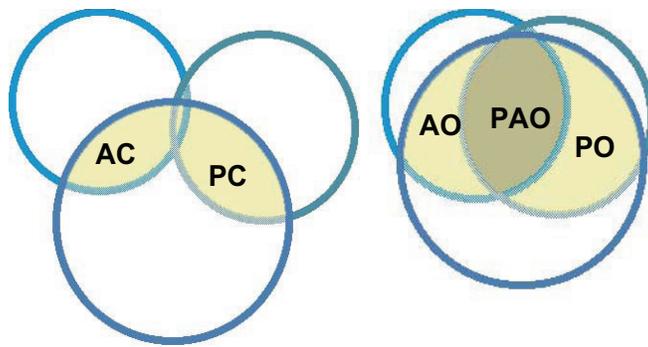
Figure 3: The diagram on the left depicts a loose alignment between programmatic and adaptive capacity. The one on the right depicts tight alignment.

Being both Adaptive & Stable

People who study complexity understand the delicate balancing required to promote both order and chaos. "Adaptive systems will always exhibit a kind of dynamic tension between chaos and order;" what former VISA CEO Dee Hock calls "chaordic."[3] Adaptive capacity pulls an organization in the chaotic direction while organizational capacity pulls it toward stability. There may be times when an organization might choose to distort the capacity balance in favor of pushing change or consolidating it.[4] Kevin Kelly goes so far as to suggest that "If people are not complaining about how chaotic the place is, you've got a problem. It isn't necessary that the whole organization be in chaos (one hopes the accounting department is spared)…The duty may want to be rotated. Realistically, disequilibrium is very difficult to maintain."[5] Of course, the signs of chaos are most typically seen as an indicator of a need to build organizational capacity, and often they are. Moreover, as Kelly warns, organizations need order in certain realms. Nonetheless, a certain level of creative disorganization may actually be desirable. If complexity theoreticians are correct, striking the right balance between chaos and order will increasingly become a nonprofit management challenge.

A growing body of management literature suggests a strategy for achieving some operating equilibrium between these seeming contradictory pulls: The answer can be found in the concept of *capacity alignment*, in the region of our Venn diagram where organizational and adaptive capacities overlap. Echoing conclusions drawn by Collins and Porras in *Build to Last*, Alex and David Bennet have recently written; "The successful organization must work hard to create a strong environment and culture within which people can effectively feel freedom, stability, and loyalty in the face of a dynamic, uncertain, and complex external environment. This necessitates the organization maintain a stability of values, integrity, and ethical behavior with a clear direction, vision, and purpose."[6] These elements of an organization's core identity provide a structure around which stakeholders can operate with independence and a minimum of formal structure to pursue improve performance.

---

[3] Waldrop, M. Mitchell. "The Trillion-Dollar Vision of Dee Hock" in *Fast Company*. (October/November 1996) p. 75.

[4] Greiner, Larry E., "Evolution and Revolution as Organizations Grow," *Harvard Business Review*, May 1998.

[5] Kelly, Kevin, New Rules for the New Economy: 10 Radical Strategies for a Connected World. Viking, 1998, p. 116.

[6] Bennet, Alex & David, *Organizational Survival in the New World: The Intelligent Complex Adaptive System*, Elsevier, Amsterdam, 2004, p. 21.

In general, it is desirable that adaptive and organizational capacities be deployed in support of the organization's value creating programmatic activities. So for example, as with most capacity building programs, an important outcome of the Mary Reynolds Babcock Foundation's capacity building grants is "evidence that the mission work is stronger as a result of organizational development work."[7] In other words, one result of investing in organizational capacity is that it bolsters programmatic capacity and therefore the two are more tightly aligned

A particularly good example of an organization building its capacity in all three spheres in a reinforcing manner can be found in Boston's Women's Union. The leadership emerged from its strategic planning process agreeing that the successful synthesis of program and policy achieved through its Massachusetts Family Economic Self-Sufficiency (MassFESS) project reflected the organization's aspirations. "The project measures the real cost of living, working, raising a family and paying taxes in each region of the Commonwealth, and advocates for the statewide adoption of this self-sufficiency standard." MassFESS is both an economic standard and a statewide coalition convened by the Women's Union to increase the economic security of Massachusetts women and their families. To figure out how to generate future high-impact programmatic activities like MassFESS, the Women's Union formed a taskforce to reverse engineer the process that generated this project and to study the ingredients that contributed to its success. What made it work? How could the Women's Union replicate the process? The taskforce concluded that the organization needed to formalize research and innovation as an organizational function. So the Union committed resources to hire a director of research and innovation. Equally as significant, they established its importance structurally by making it a senior management position reporting to the executive director.

The functions of the Women's Union's director of research and innovation are to enhance the organization's capacity to generate and use knowledge – the research component – and to assist the organization to be more innovative programmatically. Knowledge and innovation are two important attributes of adaptive organizations. But the MassFESS has generated an emergent phenomenon as the power of the self-sufficiency standard crystallized into a network of organizations that has adopted it and work both independently and in a coordinated manner to promote public policies that advance this standard of economic justice. As will be described later, the prominent role of knowledge development, innovation, external focus and networks are the four essential characteristics of organizations with adaptive capacity. The Women's Union has created a position and a function that simultaneously strengthen all 3 areas of capacity and thereby more tightly aligns them too.

For organizational consultants these Venn diagrams, and the simple 3-sphere framework for categorizing the myriad abilities organizations need to support strong performance, may provide a useful tool for engaging clients in strategic conversations about the

---

[7] Philbin, Ann, *Capacity Building Work with Social Justice Organizations: Views from the Field*, Ford Foundation, p. 25.

capacity challenges they face. This type of framework can provide a useful perspective with which to receive and evaluate subsequent capacity building recommendations.

The External Dimension of Organizational Effectiveness

People naturally think of capacity building as acquiring skills or enhancing internal operations in order to strengthen organizational performance. However, there is another way to extend an organization's capacity. Organizations can simply tap the capacity of other organizations or people that are better able than themselves to carryout specific functions. You might call it the rent rather than buy approach to capacity building. Or, to use a more neighborly metaphor, think of it is as the borrowing a cup of sugar approach. Outside every organization lies a vast landscape of easily accessible people, businesses and organizations, many of them with the ability to add value to what your organization does or to substitute their effort and ability for your's. Using their capacity, rather than building your own, can be a faster, less costly, and in many cases, better way to achieve results. But leveraging this "systemic" capacity means becoming comfortable with interdependence. This takes adaptive capacity.

While it is not always obvious,every organization is highly interdependent with its environment. Indeed all aspects of organizational life are influenced, often profoundly, by its environment. Some of these influences are obvious: The recent recession rippled through the nonprofit sector as state governments cut spending and contracts. Shrinking foundation investment portfolios translated into sharply reduced grantmaking. Even individual donors, faced with declining income, reduced their charitable-giving. Predictably, every nonprofit saw, experienced and reacted to these signs of a deteriorating financial environment. Other influences are far more subtle. These may never even register consciously. For example, seated across a meeting table from a strategic partner you might modify your comments in reaction to his body language. Organizations influence their environment too. While we are constantly reacting to environmental influences, because they are so subtle, we are rarely conscious of either influencing or being influenced.

The ways in which organizations relate to their external environment effects performance through two processes – relationships and influence – and at two levels – through consciously constructed collaborations and through the chance aggregation of many organizations' efforts. Organizational performance and capacity depends not only on what happens *in* the organization; it also depends on what is going on outside it and, therefore, on how organizations construct their relationship to the world around them to produce results.

Organizations primarily interact with their environment through influence and relationships or, as we refer to them, through *flows of information and influence*, and *connectivity*.

❑ **Flows of Information and Influence** – Being adaptive requires a very developed awareness of how interdependent the organization is with its environment. It also requires processes and behaviors that insure the organization is sufficiently porous to

permit information, ideas, and perspectives from outside to find their way into the organization. The arrows in figure 4 depict this osmotic exchange of influence between an organization and its environment.

In theory, arrows directed inward might illustrate one of two different processes: One being passively absorbed environmental influences, such as pressures to conform to a funder's priorities, stimulating an equally unwitting accommodation. This is a relatively automatic or reflexive stimulus and response reaction. The other

Figure 4: Flows of information and influence.

is a more active information-seeking behavior along with a more conscious and critical utilization of it. The former is always present: The challenge is to recognize and make conscious choices about how to respond to the data generated through interactions with the larger environment. Active information-seeking and processing reflects adaptive behavior. Hence we use inward directed arrows in these capacity diagrams to represent active information-seeking. Environmental scanning for best practices, user feedback forms, and demographic data collection about clients are all examples of active information-seeking. Using that information to critically reassess an organization's program, strategic situation, community needs, and its own deeply-held assumptions are examples of adaptive uses of environmental information. Adaptive organizations are capable of learning from their environment to improve their performance.

Arrows directed outward reflect the organization's influence on its environment. For example, the MassFESS standard described above illustrates this type of influence an organization can have on the environment. Not only did other organizations adopt the standard, increasing the likelihood that it will be still more widely adopted, it has spawned a network of organizations with the Women's Union at its hub. Adaptive and high performing organizations are likely to be seen as influential in that they motivate and induce desirable changes in others and in the larger system.

Information and influence flows can be depicted in capacity diagrams with arrows that enter and emanate from any of the three capacity spheres. For instance, arrows entering the organizational capacity circle might reflect the organization's consumption of information about its donors' or volunteers' concerns, motivation and satisfaction. This data can be used to strengthen the organization's resource base. Arrows emanating from that circle might reflect the effect of its communications strategy in influencing donor behavior.

While it might be ungainly in practice, diagramming these information and influence flows might serve as a useful graphic aid in consulting engagements. The consultant

can use the diagram to extend the dialogue about capacity beyond the organizational boundaries and to discuss the organization's most salient information and influence exchanges. The arrows might even be scaled to render the relative ability to influence and be informed in each capacity arena – programmatic, organizational, and adaptive – or with specific external stakeholders and interests.

❑ **Connectivity –**
Complexity is the unpredictable state caused by a large number of interacting elements. It is an important topic in the for-profit sector where both markets and corporate scale exhibit this quality. By comparison, internal

Figure 5: Connectedness

complexity is a trivial matter for small and medium-size nonprofit organizations. But externally, because of the nature of the services they deliver and the issues they tackle, not-for-profit organizations are steeped in complexity. Educational equity, asthma prevention, child abuse, for example, broadly impact our society and have multiple and complicated causes. Small and inadequately resourced organizations hoping to impact such issues implicitly count on the combined effect of countless other small-scale efforts to change policies, behaviors and conditions, To maximize their impact nonprofits need to work in concert with others, forming a variety of relationships – affiliations – to advance their missions. Being effective, therefore, means having the capacity to transcend organizational boundaries. These connections take two predominant forms: value chains and networks.
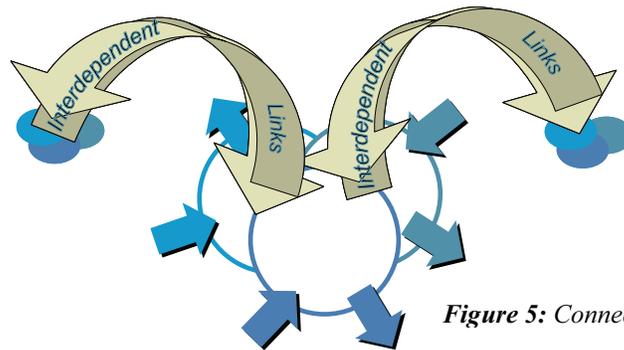
A focus on value creation has revolutionized business thinking. Value chains are a sequence of activities that add value to a product or service. If some element of value is missing from the chain, the product or service has diminished value. Value chains can take many forms. The architectural firm, property management company and real estate development consultant engaged by a community development corporation to assist in the development and management of affordable housing each add value along the way. What functions and capacity should organizations internalize and which ones should they simply get from outside? Many smaller nonprofits already outsource the preparation of their payrolls. What other activities could be more cost-effectively or better done by others?

Take this idea of interdependence one step further. In the nonprofit sector value chains can also arise more informally or even by chance. Take the workforce development field. A program that trains unemployed workers for entry-level medical laboratory positions seeks successful job placements for its graduates. But job-specific skills may be only one barrier to employment. The job training program relies on the presence of other programs in the community – English as a second

language and GED programs for example – to fulfill its employment goals. These organizations are interdependent, counting on each other's contribution to the value chain to secure good jobs for the unemployed.

The concept of value chains is very linear. However, as the workforce development example illustrates, these value creating relationships may be neither linear nor formally and consciously created. More often they are the emergent product of a network of similarly motivated efforts that, while operating autonomously, complement each other to clear the obstacles that separate the unemployed from jobs, or reduce the incidence of asthma, etc. Recognizing their dependence on others to achieve their missions, some organizations cultivate relationships that imbed them in networks. Networks are connections that have special properties. They form avenues for the flow of information and influence. Their connections can form links in capacity-augmenting value chains.

Networks are also capable of generating still larger scale effects because they extend far beyond the horizon of those connected to them. In fact, because they connect through each node to others, networks can grow very large and can generate their own system-wide behaviors. The activities of single-cell organisms, people or nations, when aggregated, often generate macro behavior that is different and more complex than the activities of its constituents. So Steven Johnson notes "ants create colonies" and "urbanites create neighborhoods." But neither ants nor urbanites set-out to create colonies or neighborhoods: They emerge from autonomous behavior of ants and people. Translated to the organizational development arena, effective organizations are those that develop "the capacity to co-evolve in an ecological sense with their external environments through mutual interaction, internal adaptability, and rapid response."[8] That's what these various forms of connection do for organizations.

What does this mean for nonprofit organizations? It means organizations should think more expansively about capacity and how they generate value and impact. High performance depends on an organization's ability to exploit capacity that exists outside its organizational boundaries. It depends on the cumulative efforts of many organizations, individuals, and communities. And it is facilitated through networked connections. Adaptive organizations have the ability to transcend their organizational boundaries to build relationships and share resources that improve performance.

This external, "extra-organizational" dimension of capacity – the notions of systemic capacity, interdependence, and larger emergent multi-entity network structures – challenges tradition organizationally-bounded approaches to capacity-building. In a culture that celebrates self-sufficiency, competitiveness and independence this concept turns traditional notions of organizational capacity building on their heads. An organization can enhance its effectiveness by tapping external capacity – accepting a fish rather than learning to fish – in addition to the more usual method of building it internally. Instead of developing an in-house financial management system, many young organizations with limited organizational capacity contract-out for those services. This is

---

[8] Bennet, 2004, p 21.

an appropriate capacity building strategy for organizations at a certain stage of development. Outsourcing, specialization, building value chains and collaborations, can all be strategies for leveraging systemic capacity through interdependence. Similarly, by working in concert with other complementary efforts, nonprofit organizations can greatly increase their impact. Networking is thus another important adaptive strategy for extending capacity.

Characteristics of Adaptive Capacity

Some organizations feel victimized by new circumstances and struggle disconcertedly to accommodate changed circumstances. Others experience turbulence as a challenge, a golden opportunity to rethink what they do and how they do it. Moreover, the process itself helps them realize that their comfort with ferment may actually be a long-term asset, making them stronger, more resilient and higher performing. This is evidence of adaptive capacity: The skill to take the initiative in making adjustments for improved performance, relevance and impact. Fundamentally, it is the ability to respond to and instigate change. The importance of this aptitude for change grows as organizations appreciate the breadth, complexity and dynamism of their organizational ambitions and operating environments. As used here, adaptive capacity includes the ability to generate or initiate change--challenging the organization's external circumstances. This level of change, particularly, may require the organization to forge relationships that extend beyond their organizational borders.

Synthesizing general concepts such as adaptive capacity into organizational practice is a challenge, though in this case the following four qualities capture the essence of adaptive organizations:

1. external focus,
2. network connectedness,
3. inquisitiveness, and
4. innovation.

These attributes embody familiar management themes. Inquisitiveness, for example, refers to well established ideas about learning and knowledge management, concepts many nonprofit organizations espouse. Yet it is still rare to find their evidence in organizational culture--the gestalt of structures, procedures, processes and everyday actions that mold organizational behavior. The reasons for this gulf between the presumed value of these ideas and their sustained use are familiar. Resource scarcity, the perceived opportunity cost and the business origins of certain concepts are enormous barriers preventing nonprofits from applying these management practices more consistently and energetically. Building adaptive capacity is hard work; it shakes things up and it takes resources.

1. __External Focus__ We generally view capacity building as something that happens internally, involving the reengineering of core organizational processes. But to be adaptive and to further strengthen programs, organizations need to be acutely focused on the dynamism and complexity that exist in their operating environments. The dynamism--

the rapidly changing conditions that exist outside of the organization--and complexity--the many forces operating simultaneously to affect programmatic outcomes--provide a compelling rationale for treating external focus as a key attribute of adaptive organizations. Adaptive organizations acutely recognize their interdependence with their environment and their need to leverage capacity, resources and allies from outside the organization. They look not only to adapt nimbly to their environments but also, when possible, to adapt their environments to them.

In today's world, "Most events and phenomena are connected, caused by, and interact with a huge number of other pieces of a complex universal puzzle."[9] Yet, we tend to neglect this profound realization when it comes to organizational capacity building, and the result is over-attendance to internal capacity building. Organizations constantly interact with their environment; a primal ecosystem consisting of associations, government agencies, foundations, economic market forces, colleagues and competitors, the media--the list could go on indefinitely. Through their interactions with these agents, organizations are influenced and can influence. Looked at on a macro scale, these interactions create system-wide behavior--the way a field is funded or a particular kind of work is regulated or the way an issue is understood and discussed, for instance. The presence of this kind of powerful system-wide behavior makes consciousness about the external environment an essential attribute of adaptive capacity.

There is a further reason for organizations to be externally focused. Joan Magretta and Nan Stone remind us that with the exception of membership associations, "…organizations are means to ends, not ends in themselves. They exist to serve the needs of people who are outside of them." As a result, "One of management's chief responsibilities is to remember this external orientation and to remind others about it constantly." Otherwise, "it is natural for people who live inside an organization to get wrapped up in what they do." [10] So being adaptive means resisting the natural tendency to become organizationally introverted by incessantly pushing the organization to be outwardly directed. It also means insuring that the organization is sufficiently porous to permit information, ideas and perspectives from outside to find a welcoming passage into the organization.

Like much about capacity, being externally focused is a trajectory, not a destination. Thus adaptive organizations push themselves to be connected and engaged, and they resist impulses to become isolated and insular. They cultivate and maintain a wide variety of extra-organizational contacts with individuals, organizations and communities to insure a rich flow of information. These are established through the activation of the board, through painstakingly constructed strategic partnerships and through casual personal, professional and organizational affiliations. In terms of adaptability, the action is outside the organization. But the capacity to relate to and interact with the external environment is internal: It is an orientation manifest in the organization's day-to-day operations.

---

[9] Barabasi, Albert-Laszlo. 2002. *Linked: The New Science of Networks*. Cambridge: Perseus Publishing, p. 7.

[10] Magretta, Joan, with Nan Stone, <u>What Management Is: How it Works and Why its Everyone's Business</u>, The Free Press, New York, 2002, p. 23.

2. Network Connectedness Organizational performance--the "ability to allocate resources, innovate, adapt, and solve problems, both routine and radical--is related to … organizational architecture."[11] Those who have studied complex systems, such as the social and institutional ecology that revolves around organizations, have discovered that these systems have a specific architecture: Unlike organizations, that architecture does not take a corporate form. It often isn't even formally structured. That architecture is *networks*.[12]

Organizations are neither the only nor necessarily the best containers in which to locate certain tasks. Consider these examples:

- In Lawrence, Massachusetts, a community development organization, Lawrence CommunityWorks (LCW), concluded its goal is not affordable housing or economic development: It is networks of people who are active in efforts to improve the city, regardless of whether the activities are LCW's. Its mission has become building "the power of the network," not LCW, the corporate entity (see "Building the Power of the Network" on page 15).
- The chief financial officers of 55 Boston area nonprofits belong to an informal, nine-year-old network that holds monthly luncheon meetings to address topics such as "Sarbanes-Oxley Act" and "Managing in Tight Times: Cost-Sharing Arrangements." The group has a mailing list of 300 and a listserv where members query their colleagues about things as practical as where to find good deals on used furniture or as technical as how to interpret an accounting standard. The CFOs have created a community of practice.
- Ten years ago four community development organizations formed the National Children's Facilities Network to advocate for financial resources to spur the development of childcare centers in low-income communities. Today, despite never having been staffed, the Network has 24 organizational members, has secured a $2.5 million federal appropriation and is now pushing for a $250 million outlay.

Each of these examples of extra-organizational forms serves a different purpose. And each relies on a network, rather than a corporate, structure, although one is a hybrid network of incorporate entities.

Like Lawrence CommunityWorks, some believe organizations--legally defined corporations--too often become the end goal or can impede the mission. In other cases, because of the mission, organizations cannot succeed without other organizations working in parallel or, in effect, operating as part of an immense and difficult to visualize value chain--healthcare providers, builders of affordable housing, parenting education programs--whose combined efforts contribute to stable and healthy communities of self-sufficient families. Perhaps the fullest realization of organizational potential occurs when nonprofits occupying their special niches, either by conscious design, such as through

---

[11] Watts, Duncan J. 2003. *Six Degrees: The Science of a Connected Age*. New York: W.W. Norton & Company, p. 260, 269, 289.
[12] Barabasi, Albert-Laszlo. 2002. *Linked: The New Science of Networks*. Cambridge: Perseus Publishing, p. 7.

strategic alliances or simply through the aggregation of independent efforts, create the potential for system-level effects that advance their missions more effectively than would be possible in isolation. This is all the more true for the small or medium-sized nonprofits, which can further advance their mission and expand their influence and reach through interdependent relationships and network structures that produce the advantages of organizations of larger scale and scope.

Building the Power of the Network

Bill Traynor, a seasoned community organizer and community development practitioner who helped resurrect Lawrence CommunityWorks (LCW), a nearly moribund community development organization in Lawrence, Massachusetts, demonstrates an intuitive understanding of networks. Lawrence is a small, down-on-its-luck textile mill city that ranks as the nation's 23rd-poorest city. Traynor explains:

Lawrence has a vacuum of leadership and engagement and therefore power sources. It also has a vacuum of assets. If we want to create significant impact, we need leaders who will take charge… There is no cabal, regime or whatever with enough power to get things done. What do you do about that as a community group? Build a network--an ever-increasing number of people connected to each other loosely but who share some values, habits, relationships, ways of thinking about the world, some history: people who can be out there practicing good leadership and information-based dialogue and debate and getting good things done, whether they are part of us or part of something else. The city needs a lot of people like that.

How do we do that? There are so many limitations to forms of organization … organizations that are exclusive and hard to get out of the way. Every city has a hundred neighborhood organizations… Are they earning their way? It is almost a law of nature, as soon as you form a group, it becomes less accessible to people. You want to build organizations that increase [access]… We are anti-institution building. "Building the Power of the Network" was the theme of our annual meeting. It was the first time we used the word "network" to capture what we are trying to build. We had talked a lot about the difference between a network and either an organization or a group of unrelated individuals. [We realized] our ultimate product is not affordable housing or community development: it is a network. Lawrence CommunityWorks is trying to build a network of leaders who do things.

Instead of building a tight organizational structure, LCW focuses on developing networks--groups of people who coalesce into networks through their activities. "LCW is always going to have to earn our place as an organization within the network," Traynor notes. "Outcomes are not just about building LCW, but having situations where there are hundreds of people doing good things because they're connected to each other." LCW's process focuses on the power of the network, not institution-building: It is about the mission, not the corporate entity.

3. _Inquisitiveness_ An emphasis on organizational learning meanders through educational, organizational development and management literature starting with John Dewey and continuing with Kurt Lewin, Douglas McGregor, Chris Argyris and Donald Schon. Half a century after Dewey, Peter Senge earned management guru ranking with his bestselling treatise on learning organizations, *The Fifth Discipline*. When management concepts reach pop-status, the nonprofit sector is appropriately skeptical. Yet, some ideas, stripped of their promotional packaging, have enormous value. Under the moniker *inquisitiveness* we can include "outcome measurement," "learning organization" and "knowledge management" because they are about generating and applying knowledge. High-performing nonprofit organizations, those demonstrating adaptive capacity, are voracious learners. They are inquisitive in that they seek out data and information; they use it to learn, and then they apply and share their newfound knowledge.

Feeling that their work does not easily translate into quantitative terms, many nonprofits are resistant to the funding community's embrace of outcomes measurement: They don't want to be held to reductionist standards of accountability. Others, however, have seen it as a tool for improving programs and performance. So it is not surprising that the evaluators of a James Irvine Foundation capacity building initiative that focused on measurement processes found that "the project's success had less to do with whether measurement systems were developed and more to do with whether the organizations were able to create a culture that valued the process of self-evaluation." They dubbed this state a "culture of inquiry."[13] Knowledge management practitioners distinguish between raw *data*, *information,* which has acquired some meaning through analysis, and *knowledge,* which is substantial enough to inform action.[14] That process of collecting data and transforming it into knowledge is a serviceable definition of learning.

Organizations that have developed this appetite for inquiry are able to initiate change to improve performance and to embrace it in response to new circumstances. Organizations increasingly recognize that information and knowledge are programmatic and organizational resources just like grant income and endowment funds. Adaptive organizations approach data collection and knowledge development much as they approach fundraising: They are recognized, valued and supported functions. Just as members of the development staff are accountable for meeting fundraising targets, staff should be accountable for generating data and distilling lessons that can inform the organization's work and enrich the field. However, to a far greater degree than fund development, learning is a broadly shared organizational activity. As the Irvine Foundation evaluators discovered, in adaptive organizations inquisitiveness--the appetite for being better informed and applying knowledge to advance the organization's core business--must be evident in the organizational culture, not just its structures and processes.

4. _Innovation_ The term *adaptive capacity* refers to an organization's ability to change:

---

[13] Hernandez, Georgiana, and Mary G. Visher. July 2001. *Creating a Culture of Inquiry.* The James Irvine Foundation.

[14] Davenport, Thomas H., and Laurence Prusak. 2000. *Working Knowledge: How Organizations Manage What They Know*. Boston: Harvard Business School Press.

- in response to changed circumstances--survival--*and*
- in pursuit of enhanced results--creation.

Peter Senge asserts that a *learning organization* "is continually expanding its capacity to create its future. For such an organization it is not enough merely to survive. 'Survival learning' … is important--indeed it is necessary." But it "must be joined by 'generative learning,' learning that enhances our capacity to create."[15] Learning, a mostly linear left brain process, is important because it fuels the less linear, right brain creative process and hence drives innovation. Thus, the fourth attribute of adaptive capacity is the creation and implementation of new ideas--innovation.

Innovation embraces dramatic new programs and services as well as modest improvements to existing processes, procedures, policies, structures and systems. Innovations can even be, as they most often are, a "novel recombination of old ideas."[16] Innovation is an important characteristic of adaptive capacity both because it suggests the generative process of creating something new or different and because it entails the critical complementary facility of challenging accepted wisdom. Innovation is the generative component of adaptive capacity; the ability to initiate, not just react.

Because over time organizations tend to become established in their ways--more structured, regimented, routinized in their thinking--it is natural that they also become less resilient and less able to adapt. Adaptive nonprofits consciously promote innovation to ensure that they continue to change and remain relevant and effective.

Organizations can create conditions that promote innovation, including:
- committing staff time and financial resources to thoughtful experimentation, being sure to reward both the successes and the failures;
- promoting organizational diversity;
- articulating new challenges that force the staff to collaborate with others and stretch their thinking; and
- seeding the organizational environment with new ideas and influences.[17]

"Homogeneity causes insularity," a team of business writers warns. "Cultivating heterogeneity within a system is essential."[18] To broaden and deepen the range of organizational experience and perspectives, to fuel learning, problem solving, innovation and creativity, *diversity should push beyond the obvious categories of race, class and gender* and embrace different personality types, ages, training, backgrounds, and so forth. Creativity and innovation thrive in less restrictive settings that support open, critical and diverse thinking fertilized with fresh ideas and knowledge. Organizations that internalize the diversity that exists outside them become more flexible and open to new ways of seeing and doing things.

---

[15] Senge, Peter M. 1990. *The Fifth Discipline: The Art and Practice of The Learning Organization.* New York: Doubleday Currency, p 14.

[16] Cooper, Cary L., and Chris Argyris, editors. 1998. *The Concise Blackwell Encyclopedia of Management.* Oxford: Blackwell Publishers Ltd., p. 298.

[17] *Ibid*. p. 299.

[18] Pascale, Richard T., Marak Millemann, and Linda Gioja. 2000. *Surfing the Edge of Chaos: The Laws of Nature and the New Laws of Business.* New York: Crown Business, p. 91.

Concluding Thoughts: Building Adaptive Capacity to Improve Performance

Generally, the best-lubricated part of the nonprofit capacity building machinery is initiatives to build durable organizations with the infrastructure, systems and practices that make them less vulnerable to risks such as mismanagement and staff succession. At first blush, however, adaptive capacity throws a wrench into this machinery, because instead of the imagery of sturdy, predictable, well-ordered, self-contained and well-behaved organizations, adaptive capacity advances the virtues of an unruly extrovert on a heart-stopping rollercoaster ride in pursuit of change and flux. But that is the point. As we wrestle with how the nonprofit sector can enhance its effectiveness, we realize organizations need to be both sturdy and resilient, cultivating both stability-endowing and change-promoting capacities as complementary, not competing, ideals.

Like other capacity building efforts, adaptive capacity is not a summit that can be conquered and a flag planted. It is something organizations pursue in an ongoing manner through measures that embed the four attributes of adaptive capacity--external focus, network connectedness, inquisitiveness and innovation--inextricably in the corporate culture.