The Basics of Capacity, Organizational Capacity Development, and Evaluation

This chapter discusses the basic concepts of organizational capacity, capacity development, and evaluation. We begin by introducing a simple model for organizational assessment that views organizational performance as being influenced by the organization’s capacity, the external environment in which it operates, and its internal environment. The discussion is grounded in experiences and observations in the organizations that participated in the ECD Project. We identify the various types of capacities that organizations need to carry out their day-to-day activities. We then discuss those special capacities needed by organizations for them to learn and adapt to changes in markets, politics, technology, and other features of their external and internal environments. We continue by discussing how the meaning of the term ‘capacity development’ has evolved over time. We introduce the concept of ‘organizational capacity development’ as a process led by an organization that may be supported by external agents and resources. We close the chapter by discussing how monitoring and evaluation can contribute to organizational capacity development.

Developing Capacity for Improved Performance

In simple terms, an organization’s capacity is its potential to perform—its ability to successfully apply its skills and resources to accomplish its goals and satisfy its stakeholders’ expectations. The aim of capacity development is to improve the potential performance of the organization as reflected in its resources and its management. A theoretical framework for assessing an organization’s performance, developed by Universalia Management Group and IDRC in Canada, was used by the ECD Project to clarify the project team’s understanding of capacity in relation to an organization’s performance (see Figure 2).

Performance is the ability of an organization to meet its goals and achieve its overall mission. All of the organizations that participated in the ECD Project have missions that focus on agricultural or rural development. Most carry out agricultural research as a tool for development. One focuses on rural development more broadly, without a research focus. One is a university faculty, and several have training or extension missions.
An organization’s performance is influenced by its capacity, by its internal environment, and by the external environment in which it operates.

Based on Lusthaus, Anderson, and Murphy (1995) and Lusthaus et al. (2002).

An organization’s performance can be expressed in terms of four key indicators: effectiveness, efficiency, relevance, and financial sustainability (see box). All of the organizations involved in the ECD Project were concerned with performance issues in one or more of these four categories. IIP in Cuba was interested in becoming more relevant to its key stakeholders in the face of changing market and economic structures. FARENA in Nicaragua wanted to prepare its graduates to address the challenges of managing integrated agricultural systems. The Plant Genetic Center in Ghana needed to develop more sustainable financing to address the need to generate income and the need to ensure continuing relevance by addressing emerging areas of interest. The future financial viability and sustainability of the Mekong Delta Farming Systems R&D Institute was threatened by recent changes in the policy environment. The Root Crops Center in the Philippines was facing successive budget reductions and was concerned about its financial viability. At the same time, it needed to reexamine its relevance and possibly reorient itself in light of the major natural disasters and subsequent economic problems faced by its client population. RDRS in Bangladesh had decentralized many of its operations to the local level and was having to ensure that

**Elements of the organizational assessment framework**

Organizational performance refers to the ability of an organization to meet its goals and achieve its mission. Performance can be gauged in terms of four key indicators:

- effectiveness: the degree to which the organization achieves its objectives;
- efficiency: the degree to which it generates its products using a minimum of inputs;
• relevance: the degree to which the organization’s objectives and activities reflect the necessities and priorities of key stakeholders;
• financial sustainability: the conditions to make an organization financially viable.

**Organizational capacity** refers to the resources, knowledge, and processes employed by the organization. For example:

- staffing;
- infrastructure, technology, and financial resources;
- strategic leadership;
- program and process management;
- networks and linkages with other organizations and groups.

**External operating environment** refers to the external environment in which the organization carries out its activities. For example:

- the administrative and legal systems in which the organization operates;
- the policies and political environment that influences the organization;
- the social and cultural milieu;
- the technology available;
- economic trends.

**Internal environment** refers to internal factors that influence the direction of the organization and the energy displayed in its activities. For example:

- incentive and rewards systems;
- the organizational ‘climate’ or ‘culture’;
- the history and traditions of the organization;
- leadership and management style;
- clarity and acceptance of the organization’s mission;
- extent of shared norms and values promoting teamwork and pursuit of organizational goals;
- organizational structure.

*Adapted from Lusthaus, Anderson, and Murphy (1995) and Lusthaus et al. (2002)*

staff were trained to carry out their functions effectively in this new organizational environment.

The IDRC/Universalia model suggests that a high-performing organization is one that employs its capacities effectively in the pursuit of clear goals and the fulfillment of stakeholder needs. In addition to being affected by its capacities, the organization’s performance is influenced by forces in the external environment in which it operates and the internal environment of the organization, which is related to its culture, rewards and incentives, and the management style.
Factors influencing organizational performance

The organization’s capacity. The first dimension that influences organizational performance, and which is the focus of this book, is capacity. As detailed in the next section on organizations, capacity includes the resources, knowledge, and processes employed by the organization to achieve its goals. These comprise the staffing, physical infrastructure, technology, and financial resources; strategic leadership, program and process management; and networks and linkages with other organizations and groups. An organization’s personnel, facilities, technology, and funding constitute its resource base. The organization’s procedures and processes for managing its resources and programs as well as its external relationships make up its management capacity. Together, these resources and management capacities make up the overall capacity of the organization.

The external operating environment. The external environment in which the organization operates also has a strong influence on its performance. The external operating environment includes such things as the administrative and legal systems that govern the organization, the political environment, and the social and cultural context in which the organization operates. For example, legal systems include the policy, laws, and regulations of the organization. The political environment could include factors such as general political stability in a country or political support that

“Not all capacity development necessarily improves performance. If you don’t interpret and respond to your context and internal situation well, it may even undermine your performance.”

José de Souza Silva

1 Quotes throughout the book are recorded comments from a variety of ECD Project workshops that took place between 2000 and 2002.

exists for the organization and its mission. Economic trends and conditions affect the ability of an organization to perform, for example by improving or worsening the general economic well-being of its clients or beneficiaries. The technological options available could be critically important to the performance of research and development organizations.

The internal environment. The internal environment of an organization influences the extent to which the organization uses its capacities to achieve its goals and perform at a high level. The internal environment refers to factors inside the organization that make up what might be called the organization’s ‘personality’, and influence the organization’s cohesiveness and the energy it displays in pursuing its goals. Sometimes an organization’s motivation can be so strong that it compensates for difficulties in the external environment and for weaknesses in its capacity. But in other cases, the internal environment can inhibit the effective use of an organization’s capacity and limit its performance. Factors that make up the internal environment include the organization’s culture, performance-related incentive and rewards, the institutional ‘climate’ in general, the history and traditions of the organization, leadership and management style, the existence of a generally recognized and accepted mission statement, organizational structure (division of labor and definition of roles, responsibilities, and authority), and shared norms and values that promote teamwork in the pursuit of the organization’s goals.

The basic types of organizational capacity: resources and management
The different elements of capacity introduced in the previous section can be classified broadly into two types of capacity that all organizations need to perform well: resources and management (see Figure 3).

**Resources.** Resources include things that are traditionally thought of as ‘hard’ capacities, such as infrastructure, technology, finances, and staffing. An organization’s resources include the personnel, facilities, vehicles, equipment, and funding that are at its disposal. Our studies found that there is a great need for the development of such resources in many organizations. The Plant Genetic Center in Ghana provides one of the more extreme examples as it lacks the reliable electrical power and telephone services it needs to accomplish its day-to-day activities. Training remains a high priority for most of the organizations involved in the studies, as does increasing financial resources.

**Management.** Management is concerned with creating the conditions under which appropriate objectives are set and achieved. Managerial activities include planning, determining responsibilities, leading, allocating resources, motivating and supervising staff members, and maintaining relations with stakeholders. These various activities can be grouped under three headings: strategic leadership, program and process management, and networking and linkages.

**Figure 3. Types of organizational capacity**

An organization’s overall capacity depends upon its resources (human, physical, financial, and technological) and its management (leadership, program and process management, and networking and linkages).

Strategic leadership is the capacity to assess and interpret needs and opportunities outside the organization, to establish direction, to influence and align others towards a common aim, to motivate them and commit them to action, and to make them responsible for their performance. Over the last two decades, many research and development organizations have recognized the critical importance of strategic leadership, and our studies confirmed this importance. The quality of an organization’s leadership has a powerful influence over its direction, its staff motivation, and its overall performance. Cuba’s Ministry of Agriculture and ISNAR’s New Paradigm
Project have prioritized strategic management and leadership for institutional change, because these factors have a strong influence over all other capacities and the overall performance of organizations.

Program management is concerned directly with the production and delivery of services for clients or target groups. For this reason, program management decisions have a direct impact on the organization’s performance. Program management skills and procedures, such as project-cycle management, program formulation, and technical reviews, emerged as crucial capacities in all our studies along with more general management skills. In recent years, for example, FARENA has sought to align its curricula more closely with the new challenges and opportunities presented by the changing economy and market conditions.

Process management concerns the management of resources and internal processes that support research and development programs, rather than the direct production of outputs per se. These include staffing and staff development, fund raising, financial management, and management of facilities. While often considered to be of secondary importance, adequate management of resources and internal processes were identified as key areas for capacity development in many organizations, because they are essential to the effective delivery of program objectives. For example, in the Mekong Delta Farming Systems R&D Institute, the evaluation study highlighted the need for changes in infrastructure management, personnel management, and coordination with donors.

Networking and linkages are becoming more important as organizations are increasingly operating within complex, evolving networks of relationships. In the past, there was a tendency for individuals to work alone or in small units within their own organizations. But nowadays, organizations and their staff are often closely linked to other organizations and individuals. Increasingly diverse stakeholders and partners are pressing organizations to involve them in all aspects of their work, ranging from priority setting and fundraising to the delivery of programs and the evaluation of results. Management must increasingly become concerned with networking and linkages.

To perform well, all organizations require adequate resources as well as competent and dedicated leadership and management. However, different organizations will have different capacity needs depending upon their missions, their operating environments, and their strengths and weaknesses in the different capacity areas. While the importance of developing physical, financial, and professional resources in an organization should not be underestimated, our studies highlighted the critically important, but frequently unrecognized, need for developing leadership and management capacities. Unless attention is paid to these ‘soft’ capacities, investments in the ‘hard’ capacities seldom lead to improvements in overall organizational performance.

**Operational and adaptive capacities**

Another way to think about an organization’s capacities is to distinguish between the capacities that an organization needs to carry out its day-to-day activities (operational capacities) and the capacities needed for the organization to learn and change in response to changing circumstances (adaptive capacities). The Evaluation Unit of IDRC has emphasized this distinction in its work with ‘outcome mapping’. Table 1 provides an overview of operational and adaptive capacities illustrated by examples from our studies.

Each of the basic types of organizational capacities discussed here—ranging from physical infrastructure to strategic leadership—have operational and adaptive aspects to them. Professional resources, for example, refer to such things as recruitment procedures and the number and skills of staff members. Personnel capacities in successful organizations go beyond this to include the ability of staff to stay current in their fields, and tolerance
and opportunities for staff reflection and learning. In Viet Nam, the Mekong Delta Farming Systems R&D Institute focused on building the capacity of its staff to implement new concepts and methods of participatory research and community-based natural resource management, to introduce a more effective way of addressing the country’s rural development needs.

Operational infrastructure refers to such things as the amount, type, and quality of buildings, vehicles, and supplies needed for the operation of the organization. However, managers must also consider future infrastructure needs and seek support and resources to obtain these. They also have to think about adapting infrastructure to meet site-specific conditions or emerging needs. In Ghana, the Plant Genetic Center assessed its infrastructure needs in the context of an emerging opportunity to become a training and meeting center for the Ghanaian scientific community. A large plenary hall was constructed to meet this emerging opportunity.

Management capacities also have both operational and adaptive dimensions. Strategic leaders need to ensure that management systems and structures are in place for the organization to meet current goals through its day-to-day operations. Monitoring and evaluation may be carried out to assess the extent to which the organization achieves its goals effectively and efficiently. Evaluation can also be used for more in-depth learning by reassessing the organization’s basic objectives and strategies.

Our studies all found that inadequate attention was being paid to periodic monitoring and evaluations aimed at organizational improvement. The ECD Project provided team members with experience in the design and use of evaluation for organizational and institutional learning, and many organizations made progress in applying evaluation results to their future work.

This is illustrated in the Bangladesh study involving RDRS and IIRR. Following the evaluation carried out under the umbrella of the ECD Project, RDRS introduced a training and monitoring system that will be incorporated into the personnel management information system. Both RDRS and IIRR are also addressing strategic issues. RDRS is now working to link staff training with organizational needs. IIRR is seeking to increase its training portfolio to include organizational development courses in addition to technical training for individuals.

**Individual, group, and organizational capacities**

A third way to group capacities is to distinguish individual capacities from those of groups or teams and of the organization as a whole. Individuals possess capacities in the form of knowledge, skills, and attitudes. Individual staff members make these capacities available to their organization but, when they leave, their capacities often go out of the door with them.

When individuals share their knowledge, skills, and attitudes with others and when these capacities become imbedded in group activities and processes, it can be said that they become part of the group’s capacity. And when individual and group capacities are widely shared among the organization’s members and become incorporated into the organization’s culture, strategies, structures, management systems, and operating procedures, they become truly organizational capacities.

An organization is strong to the extent that it taps the capacities of its individual members, shares them with others, assimilates them, and institutionalizes them. Such organizations can withstand high rates of staff turnover much more effectively than weaker organizations that fail to internalize and institutionalize their members’ capacities.

**What is Organizational Capacity Development?**
The term ‘capacity development’ as used today has its origins in the fields of technical assistance and development cooperation. During the 1950s and 1960s, financial and physical resources and skills were transferred to poor countries in a ‘supply-driven’ model of capacity development. The focus was on the supply of inputs and the transfer of technology from industrial countries to less developed areas. The assumption at the time was that these forms of capital and technologies would trigger sustained economic growth.

Later, this focus on delivery of inputs and resources shifted towards experimentation with a more ‘demand-driven’ approach. The focus was now on the acquisition of knowledge and skills in developing countries, on changing attitudes and on increasing the ability of individuals to work collectively. Here, emphasis was placed on meeting needs and managing processes rather than on supplying inputs.

Table 1. Examples of Operational and Adaptive Capacities in the Evaluation Studies

Table 1. Examples of Operational and Adaptive Capacities in the Evaluation Studies (Continued)

More recently, the focus has moved towards strengthening the national economic and legal institutions that foster the development of private enterprise. The shift in emphasis from the micro level (on the individual) to the macro level (on national institutions) has left the meso level (organizations—especially public service delivery organizations) neglected and thus vulnerable. This current model generally assumes that if you train people and get the legal and market rules and regulations right, organizations will take care of themselves. Figure 4 illustrates these levels where capacity development can take place.

“Capacity development is an emerging property. It comes from a process of interaction to decide what it means in our context.”

Albina Maestrey Boza

Today it is widely recognized that past approaches were too limited in their view of development requirements and processes. In addition, past capacity development efforts often paid too little attention to the essential capacities needed for public organizations and NGOs to play their roles and orient their research and
Figure 4. Levels at which capacity development can take place

Capacity development can take place at the micro level of individuals and project teams, at the meso level of organizations, and at the macro level of national economic and legal institutions. Development activities towards some of this century’s key development goals, such as alleviating poverty and protecting the environment.

Currently, the UNDP defines capacity development as an ongoing process to increase the abilities of an individual or an organization to perform core functions, solve problems, and define and achieve objectives. UNDP includes in its definition the notion that capacity development processes must improve the ability to assess and react to future needs and thus maintain relevance and effectiveness over time.

The National Red Cross and Red Crescent Society defines capacity development as a systematic approach of continuous learning to improve an organization’s ability to make the most effective and efficient use of the available personnel and financial resources to achieve the humanitarian purposes of the Society in a sustainable way.

These and many other definitions of capacity development have common features including the following:

- capacity development is an ongoing process;
- capacity development aims to increase the ability of an organization to carry out its functions and achieve its objectives;
- capacity development increases the ability of an organization to learn and solve problems;
- capacity development includes creating the ability to deal with the issues of today and also to remain relevant in the future.

Through the studies undertaken in the ECD Project and the discussion and analysis in which the project team has engaged over the past three years, we have evolved our own definition of organizational capacity development that builds upon the experiences of the past, as well as our own.
Organizational capacity development

Organizational capacity development is an ongoing process by which an organization increases its ability to formulate and achieve relevant objectives. It involves strengthening both its operational and adaptive capacities. Organizational capacity development is undertaken by an organization through its own volition. It is carried out through the application of the organization’s own resources, which may be supplemented with external resources and assistance. External support for organizational capacity development can take different forms, including provision of financial resources, technical expertise, training, information, political negotiation, and facilitation of capacity development processes.

Organizations often develop their capacities in unplanned, spontaneous ways in response to external opportunities and threats or individual initiatives within the organization. For example, a research organization may take advantage of training offered by an international agency, and have staff members trained in a variety of areas without really deciding what type of training is most likely to improve the performance of the organization. In cases like this, capacity development is supply-driven, and may not really meet the needs of the organization. As a result, capacity development is often viewed as a program implemented by technical assistance agencies to achieve their development goals, rather than a strategy used by research organizations to achieve their own goals.

As we learned from the evaluation studies and the reflection and learning process employed by the ECD Project, organizational capacity development is a highly complex process of learning and improvement that takes place within organizations. In all of our cases, it included support from partner organizations. One of our primary conclusions is that while external resources may be used to support capacity development, organizations themselves must take ultimate responsibility for developing their own capacities. Without organizational will to dedicate resources (time and energy of management for example) to capacity development and without an organizational culture that is open to learning and change, organizational capacity development efforts will be of limited value.

Monitoring and Evaluating Capacity Development

Our studies found that monitoring and evaluating organizational capacity development is of critical importance to ensuring that capacity development initiatives actually lead to improved performance. Because it aims to improve performance, any capacity development effort may be considered to be an inherently good investment, no matter how it is approached. But poorly conceived or implemented capacity development initiatives can fail to improve, and can even worsen, performance by diverting the overall attention and resources of the organization from high-priority to low-priority capacities. For example, researchers may be trained in state-of-the-art scientific techniques that cannot be used back home because the organization does not have sophisticated equipment. Another way to reduce performance is to

“At first we thought capacity development meant training and technical missions. A self-assessment process allowed us to interact with a variety of stakeholders, which gave us many more insights.”

José de Souza Silva

direct time and energy towards preparing plans that have little chance of being implemented. In these and other similar cases, misguided capacity development efforts can actually reduce overall performance of the organization.
Because of these potential problems, capacity development efforts need to be carefully planned to clarify objectives and to be monitored and evaluated along the way. Monitoring involves continuous, systematic observation and checking on activities and their results while work is still in progress. The purpose is to ensure that activities are proceeding according to plan, to provide a record of how inputs are used, and to warn of deviations from initial goals and expected outcomes.

Evaluation is an assessment at a point in time, often after the fact, that determines the worth, value, or quality of an activity, project, program, or policy. Monitoring and evaluation depend upon good planning to elaborate capacity development goals and the means to achieve them. Logic models, such as a logical framework and indicators, can be useful tools at the planning stage to help articulate goals and objectives, as well as interim outcomes and activities that are expected to lead to the accomplishment of goals and objectives.

Our studies highlighted the value of a self-assessment approach to evaluating organizational capacity development. Self-assessment involves an organization’s managers, staff, and stakeholders in the evaluation process, identifying strengths and weaknesses, and then applying findings to setting new directions. The process can be contrasted with the external evaluation approach, where experts come from outside an organization and design and implement the evaluation relatively independently from the organization’s staff and management. Staff, management, and stakeholders are consulted, the information from these consultations is incorporated into a review report, and the report and recommendations are presented to the organization’s management.

The advantage of the self-assessment approach is that the people responsible for the organization’s management and operations, and stakeholders with a strong knowledge and interest in the organization, gain an in-depth understanding of what works well and why, and where improvements are needed. With this knowledge, they are extremely well prepared to address the necessary changes in practical ways. Since this book focuses on capacity development and its evaluation, this topic will be addressed throughout the book, particularly in Chapter 7.

### Take-Home Messages

The objective of organizational capacity development is to help improve organizational performance to address known issues and react to emerging issues that arise in today’s rapidly changing world.

An organization’s capacities include both its resources (such as personnel, infrastructure, technology, and financial resources) and its management capacities (such as strategic leadership, program and process management, and networking and linkages).

All organizations need to establish and maintain operational capacities, including accounting systems, recruitment procedures, and physical facilities, which allow them also to carry out their day-to-day activities efficiently. Increasingly, organizations need to develop adaptive capacities that help them learn and change in response to changing circumstances. Crucial adaptive capacities include strategic planning, organizational learning, and management of change.

While external agents may provide support for capacity development, organizations must take ultimate responsibility for developing their own capacities.

Monitoring and evaluation can play crucial roles in an organizational capacity development process by fostering learning from experience and helping to ensure that capacity development meets its intended objectives.

A self-assessment approach to monitoring and evaluation of capacity development can help engage managers, staff, and external stakeholders in assessing an organization’s capacity and its capacity development needs. It also builds
their understanding of organizational strengths and weaknesses as a basis for developing commitment to implementing organizational changes where needed.

**Guide to Further Reading**

The field of ‘capacity development’ or ‘capacity building’ has its origins in the realm of practice, not in an academic discipline. As a result, much of the analysis and writing on this subject has been done by individuals associated with development assistance or technical cooperation agencies.

The website www.capacity.org and the accompanying magazine produced by the European Centre for Development Policy Management provide the best single gateway into the broad field of capacity development in the context of international cooperation and development. This site provides links to a range of resources on capacity development.

Many ideas on capacity development have originated in the work of NGOs. The International NGO Training and Research Centre (INTRAC) is a major source of information and support for capacity development. Numerous useful publications on capacity development and evaluation can be found on the INTRAC website (www.intrac.org). Readers are also referred to the book *Capacity Building* by Eade (1997).

The recent book on *Capacity for Development* edited by Fukuda-Parr, Lopes, and Malik (2002) is an important first output of a review of technical cooperation for capacity development undertaken by UNDP. It includes thought-provoking essays on strategies for institutional capacity development; power, ideology, and networks; integrating local and global knowledge; and many other topics. An earlier UNDP publication (1998) on capacity assessment and development in the context of strategic management is also useful. However, these publications emphasize capacity development at the societal and national levels, rather than at the level of organizations, which is the focus of the present book. Uphoff’s 1994 book, *Puzzles of Productivity in Public Organizations*, emphasizes the importance of strengthening the organizations responsible for producing and delivering public services.

UNDP has recently begun to publish the *Development Policy Journal*, which can be found on the website www.undp.org/capacity21/docs/BDP_Policy_Journal_Vol_1.pdf. Volume 1 is a special issue on ‘capacity for sustainable development’.

Morgan has produced some of the most insightful work on capacity development with an emphasis on organizational strengthening. Two papers commissioned by CIDA (1998, 1999) are particularly useful. Lusthaus, Adrien, and Perstinger (1999a) of Universalia Management Group in Montreal present a useful discussion of definitions, issues, and implications for planning, monitoring, and evaluating capacity development.


There are many different classifications of organizational capacities. One of the most basic ones, including physical, financial, personnel, and organizational capacities, is elaborated in *Organizational Economics: Understanding the Relationship between Organizations and Economic Analysis* by Barney and Hesterly (1996). The article “Demonstrated Benefits from Social Capital: The Productivity of Farmer Organizations in Gal Oya, Sri Lanka” by Uphoff and Wijayaratna (2000), discusses organizational capacities as forms of social capital.
In their 1995 publication, *Institutional Assessment*, Lusthaus, Andersen, and Murphy identify eight types of organizational capacity: strategic leadership, organizational structure, human resources, financial management, infrastructure, program and service management, process management, and inter-organizational linkages.

The basic classification of capacities presented in this book is based on the one presented by Lusthaus et al. (2002). The notion of operational and adaptive capacities is based on work on outcome mapping outlined in a publication by Earl, Carden, and Smutylo (2001).

The Operations Evaluation Department of the World Bank has a major initiative on evaluating capacity development. Information on this initiative is available on the website www.worldbank.org/oed/ecd/. The art, craft, and science of evaluating capacity building are discussed in a recent issue of *New Directions for Evaluation*, edited by Compton, Baizerman, and Hueftle Stockdill (2002).

A number of issues related to capacity development for participatory research and development are discussed in a recent CIP-UPWARD publication *Capacity Development for Participatory Research* (2002).