THE KRESGE FOUNDATION
Expanding opportunities in America's cities

Speech by Rip Rapson:

Expanding Opportunities in America's Cities

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The conference is ambitious. The quality of the presenters and the range of the topics seem to ensure that we will leave here having explored a broad cross-section of ideas about how the nonprofit and philanthropic sectors can contribute to effective social change. Philanthropic collaboration. Cross-sectoral cooperation. Unlocking nontraditional sources of capital. Capital aggregation. And many, many others.

I wanted this afternoon to try to set the table for some of those conversations by reflecting on our experiences at Kresge. I think they're relevant in three broad ways.

First, our work in Detroit has pushed up against the outer fence lines of philanthropic ambition and efficacy to drive large-scale change in a place of deep challenges. I'd like to talk about some of the principles we've extracted from that experience.

Second, we've constructed a Social Investment Practice that reflects our belief that it is virtually impossible to achieve large-scale change with grants alone. I'd like to discuss some of the attendant implications.

And third, our Detroit work and our Social Investment Practice suggest a suite of organizational preconditions for the kind of philanthropic work that aims to scale impact. I'd like to talk about what some of those preconditions have been at Kresge.

Excavating Principles From the Detroit Experience

Detroit.

Perhaps no other single place carries so many mixed messages in the parlance of urban policy and community development, from the automotive capital of the world and the birthplace of the American middle class to the embodiment of postindustrial urban disinvestment and the looming prospect of unprecedented public-sector financial failure.

Not a warm and fuzzy environment for the genteel world of philanthropy. And yet, over the last five years, philanthropy has stepped into the vortex – not timidly and behind the scenes, but instead with an assertiveness that some have heralded as virtuous and visionary and others have derided as grandiose and misguided. Kresge has been at the heart of that.

Why we would do that probably merits a short explanation. Among the many reasons, let me note four.
The case for philanthropic engagement in Detroit

First, Detroit is the emblematic postindustrial North American city.

If Detroit can put in place the building blocks of reinvention, so, too, might the other once-great industrial centers of America: Cleveland, St. Louis, Buffalo, Baltimore, Oakland.

Second, the particular challenges Detroit faces – education reform, re-imagined land use, economic polarization and others – are manifest to varying degrees in cities well beyond the Rust Belt.

There is no reason for every community in America to attack these problems from scratch if it's possible to draw upon an ever more-effective shared toolbox of potential responses.

Third, to turn our backs on Detroit would be an utter failure of vision and a deep moral abdication.

Detroit's population, even after a 25 percent decline in the last decade, is still larger than that of Minneapolis and St. Paul combined. It is home to 700,000 people, each one carrying a portion of Detroit's soul – past, present and future. The history of Detroit is the history of 20th-century America, its cultural institutions among the nation's treasures, its physical form and architectural legacy unique among American cities. There is a way forward; we just have to have the creativity, ingenuity and skill to identify and follow it.

Fourth, Detroit is Kresge's home.

We have been located in metropolitan Detroit since the foundation's inception in 1924. When you live somewhere, focusing too intensively or too long on the dynamics of hardship distorts one's view, obscuring a very different perspective – one that could instead project forward the assets and opportunities on which a place can capitalize. Detroit is no different.

Over the past five years, the public sector in Detroit has been consumed with trying to balance its books, the private sector has struggled to emerge from its defensive crouch and the nonprofit sector has been swamped with heightened demands for lifeline services. Philanthropy has had no choice in Detroit but to step up, read from the same page, aim clearly and get something done. This is not something that comes naturally, given philanthropy's strong predisposition to lead from behind – to preserve our mantle of neutrality and avoid stirring up a fuss. As Adlai Stevenson once observed, "It's hard to lead a cavalry charge if you think you look funny on a horse."

We've had to work hard in Detroit to convince ourselves that philanthropy doesn't look so funny on a horse. Foundations working in Detroit – all of us – are acknowledging that we can no longer sit at the margins, hoping that our good intentions and charitable impulses will help the community claw through tough times. Instead, we – national and local foundations – are positioning ourselves at the center of a new commitment to change, aggressively helping shape and accelerate a very different civic trajectory.

Estimated conservatively, private philanthropy in Detroit – Ford, Kellogg, Mott, Knight and Kresge at the national level and a host of effective private and corporate foundations locally – will spend $1 billion in Detroit over the next six years. The question is whether we – working hand-in-glove with the public, private and nonprofit sectors – have the sophistication and discipline to understand what we seek to accomplish through those investments and to calibrate strategies capable of getting us there.

Our experience over the last five years suggests that we will. That experience has suggested four roles that philanthropy is playing in Detroit.

Four philanthropic roles

First, philanthropy is helping reset Detroit's civic vision and helping broaden and align the civic alliance.

The "vision thing" has become a tired cliché in philanthropy-speak, laden with connotations of lofty impracticality. It is difficult to overstate, however, how debilitating the absence of shared community vision has been in Detroit. We knew what we used to stand for, and frequently reach back reflexively to that identity as a substitute for vision. But it is an entirely inadequate substitute. The world around us has changed in such fundamental ways that Detroit has no choice but to reinvent itself and its place in the world. Detroit presents a constellation of challenges so densely packed, intertwined and complex that the solutions must be systematic, not atomistic; dynamic, not rigid; nuanced, not ideological; long term, not episodic; participatory, not hierarchical.

This is a classic recipe for collective action: drawing together actors from different sectors to marshal shared resources around a common agenda.

That is a good description of what philanthropy is doing in Detroit. We cannot substitute for an effective public sector, but we can commit deeply to a place over a long period of time, identify an aspirational horizon line and execute cross-disciplinary, cross-sector energies to engage and invest selectively in those activities that will drive progress toward that horizon.

If there is a single best example of this process, it is our launch of the Detroit Future City plan.
In those vast stretches of abandonment so familiar from photo essays in the national media, Detroit has more public open space than any American city – the equivalent of 40 square miles, or the size of San Francisco. Waves of plant closings have vacated hundreds of acres of land at a time. Wood-frame structures have deteriorated like houses of cards, leaving the city with some 80,000 vacant homes or abandoned parcels. It is more space – far more space – than traditional planning and development constructs can handle; more space than a municipality can manage through its normal tendency to spread services in equal portions across its land mass.

In a word, Detroit's geography dwarfs its governance machinery. It simply has to repurpose its underutilized land in order to survive, stabilize and grow. That's a complex undertaking, riddled with layer upon layer of difficult choices.

It took the election of Mayor Dave Bing in 2009 to bring this challenge onto the public agenda. He approached Kresge to recommend how to move forward. Over the next three years, we created a two-part process.

The first strand was to create a powerful, data-driven architecture of information and analysis to develop multiple investment scenarios. How does the city's ecological infrastructure vary from neighborhood to neighborhood? What constraints do utility networks impose in different parts of the city? Where are the pockets of contamination? What types of land are most conducive to economic development?

The city's planning and economic development functions couldn't alone undertake these kinds of analyses. The trick was to assemble a talent pool that combined the best city staff with outside experts who had walked part of this road before. Kresge was able to identify and pay the costs of a project leader and technical teams from Detroit and elsewhere capable of taking on the challenge.

The second strand of the strategy was to create an effective, far-reaching community engagement process. Kresge – joined by Ford and Kellogg – agreed to underwrite the costs, which were in the many millions of dollars. It turned out to be a far bumpier road than anyone imagined. There were disagreements in City Hall about who was in charge. There was a growing distrust of outside experts. There were rumblings that Kresge was trying to impose some kind of stealth agenda. But at the end of the day, we created a citizen-engagement process of unprecedented scope and effectiveness, using a mosaic of organizing tactics that not only engaged more than 150,000 Detroit residents, but also helped to establish a new civic platform for how Detroiters discuss and debate challenges and opportunities.

The two strands merged six months ago with the unveiling of the Detroit Future City plan. It is less a traditional master plan than a decision-making framework. It relies on a governance structure that makes the entire community the steward of the framework – housed outside the governmental sector. It will be implemented by a newly created, robust project-management office – underwritten with philanthropic dollars and enlisting key community development partners. And it will be animated by a detailed investment plan.

For the foreseeable future, Kresge's grantmaking and investments in Detroit will be targeted toward bringing to life the innovations and ideas in this strategic framework. That represents some $150 million over the next five years – a commitment that we hope will jump-start the plan's implementation.

The second role philanthropy is playing in Detroit is aggregating discretionary capital to incur early-stage development costs that have limited return potential.

Philanthropy is commonly defined by its responsive grantmaking. So, too, in Detroit. But the philanthropic community in Detroit has sought to leverage that grantmaking by deploying large pools of capital that birth the information, relationships and early-stage project architecture that enable the community to confront challenges no single foundation could take on alone. Stated differently, we are erecting the scaffolding to scale social change.

Two quick illustrations.

The first is the Detroit foundation community's decision to aggregate capital to promote an entrepreneurial ecosystem. Almost six years ago, led by $25 million commitments each from the Ford, Kellogg and Kresge foundations and $10 million from Knight, 10 foundations stepped outside their traditional funding areas and committed more than $100 million to the establishment of a fund for regional economic transformation called the New Economy Initiative.

The initial conversations around strategy and focus were fraught with all of the philosophical questions and tensions that one might expect to arise in the face of such an immense objective. Eventually, the Governing Council – a blend of the funders and community representatives – concluded that the New Economy Initiative would dedicate its energies and capital to creating a culture of entrepreneurialism in Detroit.

It has been stunningly successful. We have underwritten the capitalization of a pre-seed venture fund, furnished space and capital for two small-business incubators and a green-economy nonprofit research and development organization, established a medical-devices innovation center at a major Detroit hospital and enhanced Wayne State University's technology-transfer operations. These efforts have injected a nimbleness and rapid-response capacity into the Detroit economic landscape that has been notably absent for decades.

The second example of this philanthropic scaffolding function is the underwriting of the startup costs of an ambitious K-12 education reform effort. Three years ago, the Detroit Public Schools posted the lowest reading scores on the National Assessment of Educational Progress ever recorded by a major urban school district. This was, and is, not only a shameful moral failure to Detroit children and their families, but also a profound social injustice and a debilitating economic liability.

It was clear that the magnitude of the challenge would require a resetting of the political table.

Newly elected Gov. Rick Snyder stepped into the void by announcing a $100 million statewide education-reform agenda rooted in the establishment of a new district comprising the state's lowest-performing schools. His boldness left no room for equivocation on the part of foundations like Kresge that had long been deterred by the political, financial and operational complexity of educational reform.

Anchored by philanthropic contributions – particularly Kresge, Skillman and Kellogg, together with $10 million challenges from both the Eli Broad Foundation and the Bloomberg Philanthropies – the reform district was launched last fall, starting with Detroit's 15 worst-performing schools. These schools are reporting remarkable progress in their first year, using individualized learning plans and a sophisticated electronic platform to improve grade-level test results and otherwise break up the calcification of a system no longer equipped to meet the challenges of a 21st-century city.

That brings me to the third role philanthropy is playing in Detroit: serving as a guarantor of value.

Aggregation of philanthropic capital can only take a city so far. We've recognized in Detroit that philanthropy also has to find ways to open the spigots of private capital. There are any number of impediments to that.

First and foremost is the perception on the part of lenders and investors that the most elementary financial equation doesn't hold in Detroit – returns are insufficient to justify the perceived risk, particularly in real estate, where there is little underlying equity and collateral values are depressed.

No simple antidote exists. In late 2010, however, Kresge and Skillman were able to attract to Detroit a new initiative from Living Cities that aimed directly at these challenges. Living Cities – a consortium of national foundations, financial institutions and the U.S. Department of Housing and Urban Development – chose five sites[1] for what it termed the Integration Initiative, in which senior debt, program-related investments and grants would be combined to attack a particularly intractable challenge in each community. In Detroit, that meant committing resources to one area of the city – Midtown – where there was heightened potential for market growth and civic inclusion.

Midtown is the home to some of the city's most stable and healthy institutions – Wayne State University, the Henry Ford Hospital headquarters, the Detroit Medical Center complex, a dozen of the city's cultural anchors, the College of Creative Studies, a half-dozen high-performance high schools and many others. It is the epicenter of the city's entrepreneurial energies. It also encompasses the North End neighborhood, one of the city's poorest. A proposed light-rail system is planned to run through its center.

Living Cities assembled some $25 million of grants and loans to lean into the capital needs of the area. Not only is that a remarkable figure, but it has also dramatically bolstered the capacity of Detroit's leading community development organization, called Midtown Inc., and has attracted the city's first national community development financial institution, providing desperately needed community-based lending capacity and expertise.

We're beginning to see tangible results. Occupancy rates in Midtown are approaching 100 percent, putting upward pressure on rent and purchase prices and making the financing of residential projects more tenable. In fact, Kresge is assembling a $30 million residential real estate fund, including five contributing bank partners, to close the remaining gaps on more than a dozen transformative real estate projects in Midtown. Whole Foods just opened a store in the heart of Midtown, its first in Detroit. Scores of retail stores and restaurants have appeared in the past three years. The hospital systems and Wayne State University have expanded their purchase of services from businesses resident in the city and have adopted housing subsidies for employees who work nearby.

In a word, philanthropy's investments and activities have sent a strong and clear signal to the market that there will be stable value over time, creating a willingness to invest.

The fourth role philanthropy is playing is functioning as a seller, not as a buyer – particularly in drawing national resources to Detroit.

Kresge's institutional commitment to Detroit has taken us out of the comfortable philanthropic default of, in effect, being exclusively a buyer of nonprofit services: waiting for organizations to present a suitable set of opportunities for our investment. We do, of course, welcome those opportunities when they emerge. But we have also had to be more proactive – functioning, in effect, as a seller: helping bring others to the table to get projects done at an appropriate scale.

There is no substitute for the kind of deep practical and emotional intelligence about a community that resides in a local foundation like the Skillman Foundation or the McGregor Fund. And a national foundation with deep community roots, like Kresge, is well positioned to frame the case for national community-development investments, policies and local landscape.

This has meant taking a real reputational risk – our credibility and success as an institution is now very much bound up in the fate of Detroit – but it has also given us a sense of urgency that is not always apparent in our sector.

Our buyers are multifold.

There is first the national philanthropic community. It is impossible to overstate, for example, the importance of the Ford Foundation's commitment not only to moving dollars into Detroit, but also to applying lessons from its national programming to the Detroit circumstance.

Our second group of buyers is the private sector. Kresge is not the Chamber of Commerce, but we are happy to play the role of sherpas for anyone with a serious interest in investing in the city. We unpack the investment context for them, explaining what is happening on the ground and how we expect things to play out over the next three to five years. We have also sold financial partnerships to them – most recently in the $30 million real estate fund I just mentioned.

Our third group of buyers, if I may be so bold, is the federal government. Detroit philanthropy has helped the Obama administration find an on-ramp to Detroit. The administration has made clear that it wants to assist in Detroit's renewal and have turned to philanthropy to help figure out how. We've contributed to HUD's thinking about how it might provide technical assistance to Detroit's efforts to reprogram federal housing and urban development dollars. We helped steer the National Endowment for the Arts to a set of investments in a Midtown arts and culture district. And we've worked intensively with the Department of Transportation to bring light rail to Detroit.

Let me spend a moment with the light-rail project as an illustration of just how important this philanthropic selling function can be.

If there was ever an environment that was toxic to public transport and mass transit, it's been Detroit and its surrounding counties. Four years ago, Kresge and key corporate leaders sought to confront these failures head on. Kresge committed $35 million – conditioned on the private, institutional and public sectors raising the balance of the $100 million project cost – to the construction of a streetcar line along Woodward Avenue that would connect the central business district with Midtown. Termed "M-1" because Woodward was Michigan's first paved road, we believed the rail line would accomplish a number of objectives simultaneously.

First, it would help create new connections up and down Woodward, the region's commercial, cultural, medical and academic spinal cord.

Second, it would encourage dense patterns of land use as housing, retail and other amenities began to populate the areas within walking distance of the stops.

Third, it would create the first leg of a regional transportation system that would extend in subsequent phases to the job centers of the northern suburbs and connect to the high-speed rail line coming from Chicago and running through nearby Ann Arbor.

It seemed a straightforward proposition – philanthropic and private funding to create a public good.

Not.

It turned out to be an indescribably complex set of lurches and setbacks that at various times have put the M-1 project at odds with the city of Detroit, the state of Michigan, the U.S. Department of Transportation and Federal Transit Administration.

But the M-1 Rail consortium called on every piece of political, financial and personal capital it possessed to navigate the project to final approval, which was granted earlier this year. We had to raise another $40 million of capital, bringing our total commitment to $140 million. We had to pass eight bills through the Michigan Legislature. We had to resolve scores of gnarly engineering and infrastructure issues.

Distilled to its essence, it was an act of selling. To the governor, that the project should jump-start a regional transportation system. To the mayor, that the city should permit a private consortium to take the lead. And, most importantly, to the secretary of transportation, that M-1 was a path-breaking, innovative approach to federal/private/philanthropic transportation partnerships. We will break ground this fall.

So there you have four principles of philanthropic role we've extracted from the Detroit work – realigning the civic vision, providing early-stage scaffolding, serving as a guarantor of value and behaving as a seller. Let me turn next to a discussion of Kresge's broader view of how to use capital in the rest of its portfolio.

Kresge's Evolving Model for the Use of Capital

The Kresge Foundation I joined in 2006 was defined by one tool – the capital challenge grant, which sought to build the capacity of nonprofits by helping them complete capital campaigns for building projects. Kresge's brand was crystal clear – we were synonymous with bricks and mortar.

It was a remarkable legacy, one we are proud of to this day. Not only had we assisted thousands of organizations in getting important projects to the finish line, we had also defined an admirable set of competencies that distinguished us within the philanthropic cosmos:

- We got good at something and stuck to our knitting – as such, we were able to separate the good project from the great project and readily identify the strengths and weaknesses of proposals.
- Grantseekers were very clear about what the foundation funded – organizations had to go through deeply rigorous analysis, but didn't have to bend themselves into a pretzel trying to guess at our expectations.
- And we provided critical leverage – our funding served as a catalyst to bring others to the table.

A refresh

But it was clear to me – and to the Kresge board – that the time had come for a refresh. From our perspective, what was needed were not necessarily more new buildings, but a more expansive way of thinking about society's most intractable problems. And yet, we wanted to carry forward those qualities that had served us well: sophisticated insight into good ideas, clarity of purpose and high leverage.

We began reconstructing the foundation topically, assessing field by field how we might expand pathways of opportunities in America's cities. We would do that by investing in the revitalization of Detroit, attacking health disparities, mitigating and adapting to climate change, increasing the resilience of human-services organizations, improving postsecondary access and success among low-income and nontraditional students, and elevating the importance of arts and culture in community identity and revitalization.

Because this new constellation of challenges didn't respond to just one "tool," we also had to recalibrate how we worked.

This has all taken a while to settle out. We now have sharply etched subject-matter strategies. We've built program teams that convene and invest in research, networks, advocacy and communications strategies.

We’ve stretched our capital-support spectrum to include a variety of philanthropic instruments. We’ve created a sophisticated social investments practice that over the next five years will deploy $150 million in loans, guarantees, linked deposits and direct investments. And, as the discussion of our Detroit work suggested, we’ve tested the edges of risk and the complexities of working across sectors.

A recalibrated orientation to capital

What we haven’t yet fully done, however, is to leave the safe and familiar moorings of approaching most funding opportunities with a grant-centric perspective.

Probably like most foundations, Kresge has deeply coded in its DNA a two-step analysis that defines how we spend our money:

- First, does a proposal from a nonprofit fit our strategy?
- And second, should we make a grant to support that organization?

At a first level of analysis, there is absolutely nothing wrong with this formulation. It calls for a strategic intentionality that is entirely appropriate. Indeed, the first part of the question is essential – we start by asking what problem we’re trying to solve.

The nuance comes with the second part of the question. Given the diversity of problems we’re seeking to crack, it seems odd to assume that the right tool for the job will always be a grant to an organization. In fact, it is virtually never the case that a stand-alone grant solves the entirety of a problem or allows us to scale impact. And in fairness to grantees, they rarely claim otherwise.

We’ve accordingly sought to ask a different question: What is the set of tools or approaches that are most likely to move the needle on the problem we seek to address?

There may be a grant somewhere in that mix, but there may also be a program-related investment, a prize or even a social-impact bond. And if there is a grant, it might be for any number of purposes – to support operations, projects, research, public information campaigns, advocacy, policy reform and many other activities. At the risk of being ridiculously simplistic, we’re testing what it means to be problem-solvers first and foremost. That means starting with the problem and then, and only then, selecting the form of capital – whether financial, intellectual or reputational – most suited to fixing it.

The financial crisis of 2008 launched that approach. Our Social Investment Practice's very first investments were driven by the problem at hand. Human-services organizations providing food, shelter and other emergency services needed a bridge – to an improved climate for donations, to the receipt of government payables, to an easing of personal economic crisis among their clients. We made 14 zero-interest, three-year loans to those organizations. They were a stopgap and they weren't innovative, but they were what the organizations needed. And they started us on a new way of doing business.

Kimberlee Cornett, our extraordinarily gifted director of Social Investment Practice, has skillfully navigated us from this starting point to a sophisticated and complex portfolio that has vastly expanded our capacity and effectiveness as a philanthropic organization. And it has made us more rigorous about starting with a problem, rather than with a tool.

The Woodward Corridor real estate fund I mentioned earlier is an example. Around this time last year, Benjy Kennedy of our Detroit Program team sent out an email pointing to the incredible diversity of some two dozen emerging real estate projects along the Woodward Avenue Corridor. These projects needed to come to fruition, Benjy argued, if we were to achieve our goals of introducing density, diversity, vibrancy and walkability to Detroit's core. He suggested that we needed a "capital war chest" that would provide the critical missing pieces of financing.

This wasn't something that Kresge could do alone. Benjy and Kimberlee worked together to create a hybrid fund structure that will allow us to use the capacity of a strong intermediary (for lending purposes), while maintaining control of our most flexible capital tools (grants and guarantees) for strategic deployment alongside and/or in support of our externally managed debt capital.

Similarly, in the panel immediately following you'll hear a description of the Healthy Futures Fund, the assembly of various forms of capital by Kresge, Detroit LISC and Morgan Stanley to promote the integration of community-based health centers with affordable housing.

But these approaches are still the exception at Kresge. Let me turn in the final section of my remarks to a nuts-and-bolts description of some of the challenges we've faced in migrating this work throughout the organization.

Operational Implications at Kresge

This problem-first-then-the-tools approach seems so simple. Introducing it into Kresge's organizational structures and culture has been anything but. Let me touch on two specific hurdles: the capacity to work across sectors, particularly finance; and the capacity to bridge across program and finance within the foundation.

Cross-sectoral and financial capacity

So the first challenge: the capacity to work across sectors, with a particular eye toward finance.

Investing in social change necessarily implicates a larger context occupied by public and private partners. That requires that we understand how philanthropic capital fits – how it will combine with the actions of others to help lever changes in markets, behaviors and policy. Each sector will ask different things of the foundation, but each will almost certainly contribute in some measure to the problems we seek to influence.

Sometimes we provide capital because there isn't enough of it – one thinks of human-services organizations struggling to build a sustainable funding base, for example. Sometimes we'll provide capital as a way of breaking through formulaic or ossified capital practices – for example, the need to structure a very different kind of capital stack in markets like Detroit where real estate values won't support traditional loan-to-value ratios. And sometimes we provide capital at critical points that are difficult for the private and public markets to underwrite – an illustration might be early-stage planning capital that lays the groundwork for other sectors to enter the commercial building energy retrofit space.

In all of these cases, however, our program teams need to be conversant in the language and needs of private and public finance, policy, decision-making and accountability systems.

The problem is particularly acute with respect to philanthropic financial literacy. This is not to dismiss or even de-emphasize the importance of academic expertise in shaping strategies and making investments – indeed, foundations of the last generation have progressed impressively in developing topical expertise and academic chops. But we have been slower to the challenge of becoming deeply conversant in the lexicon and practices of deal-making and finance.

Accordingly, we probably need a more robust revolving door among the sectors. With government, to be sure. But – and I hesitate to admit this – we in the philanthropic sector could probably use more MBAs as well, and should start thinking about what it means to compete in that talent pool. Consider the observation by our friends at the Omidyar network: "Our early impact investing efforts," they said, "were executed occasionally by foundation staff accustomed to only making grants. When we began to recruit senior investment professionals with deep backgrounds in venture capital and industry, we began seeing stronger results."[2]

At Kresge, this challenge of financial literacy takes two forms.

On one hand, we're asking our program staff to differentiate among the capital opportunities presented by different fields and sectors in the ways I've described.

On the other hand, we're also asking our program staff to probe more deeply into what kind of information and analysis we want from organizations seeking funding. We are firm believers in the sustained value of long-term support at the enterprise level for the right organizations. But that requires a deep understanding of their balance sheet and market context – both for funders and recipients.

Program officers can't assess how to respond to requests for support without understanding an organization's operating model and its overall capacity to navigate a given capital environment and to innovate, implement, sustain and scale good, evidence-based ideas.

Both these kinds of analysis will require sustained investments in training. Without meaningful, sustained training – supported by incentives and clear models of what good looks like – it's not realistic to expect staff to know how to shape a program-related investment, let alone aggressively construct innovative deals to address market gaps and identify those organizations with the talent, vision and resources to effectively use capital to bring about meaningful change.

Integrative capacity

A second essential capacity at Kresge will be our ability to break down internal barriers and work as an integrated whole.

Programs need to work one with another across disciplines. Our Social Investment Practice needs to be fully embedded in our program strategies. And the program side of the house needs to take advantage of the investment side of the house's perspective and expertise. Just a word about each of these dynamics.

First, the foundation's experiences in Detroit cast in bright relief the importance of interdisciplinary integration. It is the norm rather than the exception that a strategy centered in one topical area will be inextricably intertwined with strategies in other disciplines. In New Orleans, for example, our Environment Program team's investments in organizations working for the restoration of the Gulf Coast might play off of our Community Development Program team's investment in community-engagement strategies in the Ninth Ward. We've begun to create budgetary incentives to encourage our program teams to work this way.

Second, our Social Investment Practice will fall short if we conceive of that practice simply as a service desk for our program teams. Just as the program teams need to be more deeply conversant in finance, Social Investment has to more deeply understand program – they can't be finance jockeys for whom the imperative becomes making a compelling deal, rather than reinforcing program strategy by tackling the biggest social problems in the most effective ways.

Third, we're trying to bridge the normal divide between the program staff and the investments office. We are blessed to have in Rob Manilla, a chief investment officer who is deeply passionate about our mission and our strategies. Rob recently arranged, for example, a "speed dating" event between members of his investment team and the program staff to create a baseline understanding within the investment group of our social objectives and theories of change.

We've also taken some baby steps toward mission-related investing – trying to identify among all our resources and knowledge those assets that can contribute most readily and directly to our mission. You'll hear a great deal during the course of the conference about mission-related investing – it is infinitely complex stuff, and I won't presume to shape that discussion today. But less commonly discussed is how organizations can take some initial steps in getting started. Here's what we've tried.

Our initial gesture has been to create a more sustained feedback loop between our investment teams and program teams. We think that even having both floors know what the other is up to will make a difference. In addition to our speed-dating event, I've tasked a Fellow working for our Social Investment Program to map our investment portfolio onto our Health team's strategies with an eye to identifying points of both alignment and torsion. What we do with that information remains an open debate within our staff and among our trustees. But having that information allows us to ground our future path in data, and make some informed choices accordingly.

In a similar vein, our investment team has identified a handful of opportunities for market-rate return in areas that align with our program strategies. That just strikes us as an obvious no-lose proposition – even if those investable propositions can be difficult to find.

And finally, it has dawned on me, perhaps a bit belatedly, that the expertise that makes our investment team good investors also makes them terrific thought partners for our program strategies. In speaking earlier about Detroit, I mentioned our role as a seller, trying to use our position to draw in other investors. It should come as no surprise that this is like falling off a log for our investment crew. Their enthusiasm, insight and skill have already helped elevate the sophistication of our programmatic analysis.

Concluding Thoughts

I hope that over the coming days some of the observations I've offered about our experiences in Detroit, our emerging lead-with-the-problem-definition approach and our capacity challenges will be of some relevance.

My aim has been not so much to be instructive as it has been to be transparent. I make no claim that our efforts in building cross-sector partnerships, in pushing ourselves into the social-investing arena and in organizing around a new way of working are models – they have simply been our reality. And that reality has at times been a slow, tough, exasperating slog. But I believe, firmly, that for us to achieve our ambitions at scale, all of what I've talked about has been, and will continue to be, necessary.

I welcome your own reflections and questions, and look forward to hearing about your own journeys. Thank you, and have a productive conference.

[1]The others are Minneapolis-St. Paul, Cleveland, Baltimore and Newark, N.J.

[2]Omidyar Network, "Eight Years In: Lessons Learned in Impact Investing from Omidyar Network," January 2013.