

Commentary by Rip Rapson:

The New Values-Centered Grantmaking

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For more than 83 years, the Detroit-based Kresge Foundation has helped build the country's nonprofit infrastructure, from libraries and schools to food banks and community centers. This \$3.9 billion private foundation recently unveiled a new values-centered approach to its grantmaking as its way of responding to the pressing needs of our society. The nine values that represent its strategic priorities are creating opportunity, community impact, institutional transformation, risk, environmental conservation, innovation, collaboration, underserved geography and diversity.

National Committee for Responsive Philanthropy Communications Director Kristina Moore interviewed Kresge Foundation President and CEO Rip Rapson about Kresge's new approach to grantmaking, the challenges it faced in implementing the changes and lessons learned.

Kristina Moore: Can you tell us more about a set of new values that The Kresge Foundation recently adopted for its grantmaking?

Rip Rapson: Our values aren't really new. Many have been quietly guiding our efforts for a long time. What's new is that we've made them the centerpiece of our grantmaking process. For many years, Kresge has developed and refined an approach to grantmaking that relied heavily on challenge grants for building campaigns. The result was thousands of grants that were clearly beneficial, helping countless organizations complete important projects, build a stronger donor base and strengthen their boards and staff. But the challenge grant was a neutral tool. It focused mostly on the robustness of an organization's fundraising model and less on the grant's purpose or the direction of the grantee's mission.

My arrival afforded an opportunity to reflect on how, going forward, we could best meet the needs of the nonprofit sector. Our conclusion was that we could expand our approach, building on the powerful legacy we've developed over the years. That could happen in a number of ways.

First, we began by developing a set of questions to inquire about the purpose of an organization or a particular project. These questions reflected the values we felt were important to our decision-making process. Whether the project advanced low-income opportunity. Whether it had a broader impact beyond a discrete project. Whether it promoted innovation or cross-sector collaboration. Whether it advanced environmental stewardship. And the like.

Second, we determined what fields of interest we wanted to focus on, how those fields were changing and how a particular project would fit into these changing fields. When we combined the contextual question of where the fields were going with our values criteria, we ended up changing rather dramatically the lens through which we look at proposals.

And third, we opened up the idea that facilities capital might not be the form of capital of greatest importance to an organization. They might need early-stage planning capital, working capital, a program-related investment or some other form of capital that would help position them for long-term stability and growth.

Good fundraising used to trump everything else. Fundraising prowess will continue to be important to our deliberations; a project has to reflect good, sound campaign principles. But the values proposition is of paramount importance.

KM: Was there a particular person, or groups of people, within Kresge who was drawn to this change approach? I suspect it involved the buy-in of staff and trustees to get the change going.

RR: Yes, to all that. But I think the precipitating event was the organizational opportunity created by a change in the executive. I think that whenever a new person is brought in to lead an organization, it's an opportune time to objectively ask where the organization finds itself and whether it might be time to consider fresh approaches and new directions. When I interviewed with the board [for my current position], they asked how I viewed their current work, what changes I thought they should make and how I might go about them. The board was interested in entertaining a different view. They weren't necessarily committing to a specific course of change, but they wanted to understand whether the candidates felt change was appropriate. It became an important factor in their decision-making process.

I took a strong view that we needed to “depreciate” the Kresge asset, evaluating carefully what aspects of our traditional approach continued to have value and needed to be carried forward and what aspects no longer served us as well and could perhaps be retired. I think we had become overly enamored of and bound to our particular version of the challenge-grant model, with its focus on fundraising. And yet, grantees were increasingly providing the feedback that while a new facility can be a terrific, transformative moment in an organization’s history, sometimes the greater need is for growth capital or other forms of capital. This feedback spurred us to think more creatively about how we add nontraditional sources of capital to what is already available to the nonprofit sector.

KM: The new approach has placed a greater emphasis on helping organizations that serve low-income and marginalized communities. Do you think that other foundations do enough grantmaking that benefits these groups?

RR: Let me preface my answer by saying that we’re not in a position to be judgmental of others. Although our traditional grantmaking may ultimately have benefited low-income communities through the erection of a building, that result was an indirect consequence rather than a primary purpose of our grantmaking.

But to answer your question, I am struck by how foundations do try to address the needs of marginalized groups. It is one of private philanthropy’s defining qualities, and part of a very proud tradition. Do enough people do it? Probably not. But when you think of Annie E. Casey, Ford, Rockefeller, MacArthur and so many other large private foundations that are Kresge’s counterparts, there is in evidence a deep – perhaps even profound – commitment to issues of opportunity and social justice.

Can we nevertheless be more effective as a sector? Absolutely. It was the examples of those fine organizations that inspired Kresge to aspire to do more than we were doing. Our intentions were good. But we were playing it safe, hoping that funding a building would strengthen the nonprofit, which would in turn strengthen a community. That undoubtedly happened. Again, however, it was an approach that failed to confront the tough issues head-on. The hard-edged, high-risk, difficult work of really helping people chart their own course in the most impoverished communities in our country wasn’t on our radar. We’ve concluded that it has to be.

KM: What obstacles did the foundation face in designing and implementing this new approach to funding?

RR: There were impediments in nearly every direction we turned. There was, for example, a pretty powerful institutional tradition at play. We had been working in a certain way for a very long time, so it was not at all clear how to turn the boat in a different direction while not doing violence to expectations that people had of us. There are many grantees that used to be highly competitive for a Kresge grant that may no longer be. We don't take that lightly, and we certainly don't want to pull abruptly the rug out from under entire groups of potential grantees without some element of fair play. The whole question of how we manage the change process within the grantee community has been a priority for us.

There was also the very strong tug of institutional inertia. Our very capable staff had been working in a certain way for a very long time. How do you rally people to think anew about grantmaking? How do you figure out internal mechanisms that help people work differently? We're still wrestling with this and trying to determine ways to increase effectiveness.

We just completed a Center for Effective Philanthropy survey¹ in which we were compared to other foundations in terms of grantee perceptions. It essentially confirmed what we already knew, which was that grantees thought we could do a much better job at having an influence in our fields, on communities and on the organizations themselves. They said that we needed to dramatically retool the way we operated because we tended to be bureaucratic, highly formalistic and, at times, insufficiently attuned to nonprofit needs. The survey also indicated that we were missing a whole slice of the nonprofit world – organizations that were smaller, less sophisticated about fundraising, not as far along in their campaigns. It suggested we might want to be more flexible in how we responded to their requests.

And it is one thing to say we are moving away from something and an entirely different thing to ask what we are moving toward. What are the other forms of support that we want to offer organizations? How do we build out that toolbox of early business planning, working capital, PRIs or innovative capital that I mentioned earlier?

KM: Why was it important for the foundation to expand the kinds of support it provides? Why change when you already were making a difference?

RR: As I've noted, we've clearly made a difference but, in deconstructing the impact we have had, we found that perhaps the impact wasn't quite as great as we hoped. Organizations were using our grants to become more disciplined, more focused and more professionalized in their approach to fundraising. But

ours was a back-end influence. We entered fairly late into the game and provided challenge grants so that nonprofits could use those grants to increase the organization's long-term fundraising capacity. We weren't helping organizations decide whether or not to conduct building campaigns. We weren't asking whether they could sustain the programs that went on inside the buildings. We weren't asking whether the building helped reposition the organization for the long term.

It is important for Kresge to expand its toolbox if we want to view organizations holistically. We want nonprofits to tell us who they are, where they want to go and what forms of support would be most effective. It's very retail grantmaking, and we know that asking these kinds of questions and customizing the tool kit for folks is very time-intensive. That's the challenge for us. We need to find balance between making challenge grants and the more customized grantmaking I've described.

An expanded toolbox permits us to think less about capital challenge grants specifically and more about the capitalization needs of the nonprofit sector. Edna McConnell Clark and a few others are looking at capitalization in innovative ways. But Kresge is one of the few national organizations that over time have focused on this question. If we broaden the conversation about different forms of capital – not just facilities capital – I think we can offer something valuable to the nonprofit world.

KM: Tell us more about the difficulties you are facing in managing your presence in the grantee community.

RR: Last year, I was asked by a group of small liberal arts colleges – some of the finest in the United States – to talk to their development staffs about our new values criteria and how they will have stiffer competition given our new grantmaking system. Of the 80 or so institutions represented, about 70 were Kresge grant recipients. These are institutions that play an important role in higher education in the country and are sophisticated about development.

Probably 10 people in the audience came up to me afterward and voiced objections. But about 30 others came and expressed understanding, agreeing with my premise that since they're well-endowed and have good access to donors through their board of directors, they don't really need Kresge grants to the same extent they might have in the past. They agreed that they have grown more sophisticated over the last decade and that fundraising practices have, in effect, internalized the Kresge method. Another 20 people said we were doing the right thing and asked if they could come to Kresge if there was a project important to their institution that met our criteria. My answer, of course, was absolutely. We would love to see any one

of these institutions demonstrate how it is advancing our values and having a beneficial impact on its surrounding community.

KM: Can you give us one example of a project that you support now that you wouldn't have supported before?

RR: One of the great pleasures of having watched this process evolve over the last year is how many examples of exactly this kind there have been.

One example is Rust College in Mississippi. Rust asked us for a grant to help with the construction of its math and science center and the renovation of an existing science facility. This is a historically black liberal arts college founded in the mid-19th century. It's one of the oldest still in operation. Its student profile is predominantly low-income kids. About 60 percent of freshmen come from the 23 poorest counties of northern Mississippi and almost 90 percent of students receive Pell grants, which is a good way of measuring need. The request never would have passed our fundraising hurdles for many technical reasons. But we were compelled by the nature of the organization, the clients it serves and the curriculum, which is designed to help first-generation college students succeed and stay past their freshmen year. Rust's grant offered us a wonderful opportunity to think differently. It is an example of a grant we would not have made two years ago, but that we're excited and proud to make now.

KM: You also streamlined the grantmaking process. Why was this important to do? What are the benefits as a funder and for grantees?

RR: On the grantee side, applying for a Kresge grant was as arduous a process as any that probably exists in philanthropy. It was legendary. If you were awarded a Kresge grant, you probably could get a grant from anybody. In fact, we had become a sort of Good Housekeeping seal. We've talked to other foundations that told us they don't even bother with due diligence if they know an organization has received a Kresge grant. They know we were so thorough, so rigorous, so disciplined that it wasn't necessary to put the organization through the due-diligence process again. I think many grantees were highly appreciative of our process. It forced them to become disciplined, to ask all the hard questions and to get all their ducks lined up.

But in moments of greater candor, grantees would tell us that it wasn't necessary to do all of the layers of analyses. We're now striving for the middle ground – preserving the discipline of the Kresge process, including our expertise on what works and what doesn't in capital campaigns, but also being more

respectful of the different ways people complete a campaign. People know what they're doing. If we get a request that is not realistic about its fundraising goals or strategies, then that's a different matter.

You asked a really good question about its effect internally. Kresge's grantmaking machinery had become mind-numbingly complex. It was geared toward subtle, nuanced, highly technical aspects of fundraising. In trying to simplify, clarify and make more strategic the questions we ask of grantees, as well as what we want the grant to accomplish, we are inevitably changing the culture of a place. This new approach has allowed our staff to be more creative, to interact differently with grantees, to ask thoughtful questions, to search out a variety of objectives. We are working smarter, more thoughtfully, with more agility and, over the long term, with more effectiveness. We will have a very different relationship with our grantees going forward.

One tangible way this is happening is through our new letter of intent process. Previously, Kresge applications came in 100-page installments. Now, in five pages, we ask grantseekers to tell us what they want to do and to align it with the values listed on our website. We've committed to responding back to them within a month to six weeks. If what they are proposing is promising, we'll ask for the additional information we will need to build out the proposal and make a final determination.

We hope that in the end there will be more conversation with our grantees. In the past, once a grantseeker had submitted an application, that was it. You didn't talk to a program officer. It is a priority for me and all of us at Kresge to consider how we interact with grantees in order to get the best information from them, to make sure we are doing the right things and to understand their work better. Hopefully, this commitment to conversation will help inform our grantmaking.

KM: How do you measure success in your grantmaking?

RR: Previously, our measure of success was whether a building got built. We hoped and had every reason to believe that the building would expand the capacity of the organization: more donors, more engaged board, et cetera. But we had no empirical basis from which to draw those conclusions.

In the new system, we are now in the same realm as every other foundation in the country. We have to figure out our grantees' metrics, what they're trying to accomplish, and the balance between cold, objective processes and analyses and the more anecdotal sense that you're helping a field move differently, changing behavior or helping an organization reach a different level of work.

As we look at a more complicated capitalization structure, we're going to increasingly include benchmarks of progress. We'll be able to see the return on investment in tangible terms if we're focused on the capital work. It becomes a little more complicated if we're saying we would like to have an impact on climate-change adaptation strategies in the Upper Midwest. I think the best we can do is become more active participants in philanthropic networks that struggle with these questions. This is new territory for Kresge.

KM: What lessons learned would you share with other foundations considering major changes to their grantmaking?

RR: First, it's important to be clear about what from your past continues to serve you well. It has been critical for our trustees, grantees and staff to understand that a considerable amount of what we did was valuable. You shouldn't throw the baby out with the bathwater. You need to look at the good things that you've been doing because there's the temptation in the change process to simply start over.

The second lesson is the difficulty in communicating change while in the middle of it. It's tempting to wait until it's finished. There are folks who have handled it that way because it's cleaner, but our view is that it's essential to communicate as much as you know as early as you can. People are tolerant of a change process as long as you're honest about the large amount of ambiguity and uncertainty involved. We aren't quite sure how things will look, how the processes will change, how we'll do our measurements, but we think it would be fair to share this with others and invite their reactions. As I've mentioned, we've received many comments and those reactions were informative. We've gotten enormously helpful feedback from grantees, other foundations, the Center on Effective Philanthropy and a spectrum of folks from the nonprofit world who care about Kresge being the most beneficial presence it can be.

A third lesson, which is more of a motivation than a lesson, is that particularly in times of such turbulence and dislocation around the world, especially in this country, Kresge's assets are too precious to squander. So, reassessing the highest use of our investment is reason enough for change. Heaven forbid, we become so complacent that what's good enough is good enough.

In some ways, there was absolutely nothing wrong with Kresge. It had a strong brand, was doing good work and was having impact in lots of directions. But our view is that the world is a more complex place than it was 20 years ago when we began this kind of grantmaking. We owed it to ourselves and the community to ask if our values, tools and approaches best served the community's needs as they now present themselves.

Our conclusion was that they did not and we needed to recalibrate.

There always is a case for change. How much or how little, every institution will have to sort through that for itself. In our case, it was substantial.

¹ A copy of the survey and a discussion of the results are available [here](#).