



Speech by Rip Rapson:

Working Beyond the Fence Line: The Changing Roles of Philanthropy

A speech to the Nonprofit Awards Luncheon of the Mandel Center for Nonprofit Organizations at Case Western University.

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Introduction

It is an honor to be associated with such a remarkable institution. Mort Mandel's vision some 20 years ago to invest in the long-term cultivation of nonprofit leadership is remarkable in its simplicity and profundity. How could he possibly have known how critically important that vision would be in today's environment of such varied and enormous challenge?

And what a pleasure it is to share this stage with the two extraordinary organizations you honor today. My congratulations to Steven Raichilson and the Menorah Park Center for Senior Living and to Holly Harlan and Entrepreneurs for Sustainability. Your work is profoundly important, creative and inspirational.

A different way of seeing philanthropy's role

I wanted to use my time this afternoon to suggest a very different role that privately endowed, large foundations such as mine need to play at a time when our society is making, or not making, decisions that will reverberate well into the lives of our great-grandchildren.

As the pace of change in the world accelerates – as the effects of globalism, immigration, economic restructuring, terrorism and climate change ricochet with unprecedented complexity throughout our society – the need for new organizational linkages, particularly among the sectors, becomes increasingly acute. The challenges are simply too complex and multifaceted for one sector or another to take on by itself.

And yet, rather than consciously and proactively calculating how to play off the strengths of one another to take on these big and dangerous problems, each of the sectors instead inclines toward its own splendid isolation.¹ And philanthropy may be the worst violator of all.

So I want to suggest a model for approaching these matters quite differently. I'll gather my remarks into three parts:

- First, a description of four qualities of philanthropy that create the potential for a far more strategic approach;
- Second, a look at how this might play out in the realm of metropolitan growth and development; and
- Third, a few concluding observations.

I. Four Qualities That Enable Philanthropy to Pursue Strategic Change

The great educator and philanthropist Paul Ylvisaker characterized foundations as society's "passing gear" – organizations uniquely suited to propel society beyond its fixed and safe positions toward enduring long-term social change.

Both the foundations I have headed – McKnight and Kresge – have wrestled with the tension zone between grantmaking that is primarily responsive charity and activities that aspire to be more strategic. Both institutions, together with the field of philanthropy generally, have come to recognize that purely charitable grantmaking can only go so far in changing the fundamental social and political dynamics that shape our citizens' day-to-day quality of life and their long-term trajectories of opportunity. One has no choice but to step onto the larger stage of public policy, civic relationships and economic systems in order to shatter calcified patterns of injustice.²

And yet, working this way is still the exception among private foundations. It shouldn't be. Four reasons come to mind.³

First, private philanthropy has the ability to view things whole.

It's so easy to become focused on a particular grant or immediate need that we sometimes forget the enormous privilege accorded private foundations to take a holistic, long-term view, to stitch together threads that seem distinct and unrelated.

And because our assets secure our survival, we can cultivate the kind of patient intelligence that permits us to go deeply into an issue over a long period of time, chipping away at seemingly intractable challenges, making a difference in ways large and small.

This quality creates a particularly close affinity between philanthropy and the academic sector.⁴

Private foundations in the early 20th century cut their teeth on research, supporting scientific and academic inquiry that pioneered new ways of thinking, generated new institutions and raised novel questions.⁵

Although a number of foundations have kept that tradition alive, private philanthropy needs to recommit itself to the value of creating and disseminating the kind of knowledge that bears on our deepest problems.

Foundations are, after all, uniquely suited to encourage the kind of research that can explore the bold and the profound, the unconventional and the unpopular – the kind that can pay dividends far beyond the life cycle of a grant period or even beyond a grant’s subject matter.⁶

And foundations can invest in academic pursuits that contribute to balanced, tolerant and informed democratic discourse, serving as a partial antidote to a civic climate that too frequently substitutes brittle and unyielding ideologies for flexible and complex critical thought.⁷

The second reason private philanthropy can play this more strategic role is its freedom to take risks.

It is helpful to bear in mind that many private foundations were created by founders taking the kind of high business risk that could leverage spectacular returns over the long term.

Private philanthropy – free as we are from re-election cycles, quarterly profit reports and appropriations from others – has the independence to take chances of a similar kind. Not just the modest risk entailed in individual grants, but the larger bets that promise true innovation and transformation – philanthropy acting as society’s social venture capital.

But unlike the private sector, philanthropy applies the quality of risk with a social compass.⁸

Foundations invest where private markets will not. Building housing in impoverished urban neighborhoods. Underwriting efforts such as Social Compact, which compiles consumer data demonstrating that robust spending and viable markets exist in those very places national commercial chains have relegated to

convenience-store economies.

And whereas private markets are transactional, bringing individuals and organizations together at the moment their economic self-interest coincides, but not beyond, it falls to philanthropy, together with the public and nonprofit sectors, to forge more enduring social, moral and emotional bonds.⁹

The third quality of philanthropy that permits it to be strategic is its flexibility to employ a wide range of tools.

At root, we in philanthropy make grants. But we can put our institutional equity on the line in any number of other ways as well. We can *convene* people as a way of forging relationships, promoting joint inquiry and fostering concerted action. We can pursue *strategic communications* to strengthen public understanding of, and engagement in, the work of grantees. We can *invest directly* in social enterprise through program-related investments, loan guarantees and other forms of financial leverage.

The public sector possesses a similar set of tools. Unfortunately, however, it is using them less often and less creatively, both a cause and consequence of growing public distrust of and disaffection from government.¹⁰

Foundations cannot substitute for the government. It's not just a matter of inadequate financial resources; we simply cannot do without an able, committed government sector that sets priorities through informed public spending, that forms equitable and reasoned policy and that serves as the steward of respectful, responsive public institutions.

But when this basic calculus falls apart – as it seemingly has – philanthropy should not sidestep the moment. That's why foundations of every size and kind are supplementing their more traditional grantmaking with public information campaigns, strategic issue research, the formation of novel financial intermediaries and many other tools.

The final reason philanthropy can play this role is its historical commitment to investing in underrepresented people and causes.

Although private philanthropy joins with others in promoting society's full spectrum of worthwhile activities, its support assumes particular importance for organizations that serve as our society's moral thermostats, flipping into the on-position in the presence of suffering, injustice or callous behavior.¹¹

This convergence of the missions of foundations and nonprofits has led many to view them as a single sector – the so-called independent sector.¹² But the similarities should not obscure the differences. Certainly the most basic of these is the reality – one that we in philanthropy shouldn't forget for a minute – that nonprofits work daily on the front lines, often against impossible odds.

In that basic sense, nonprofits enable the work of foundations. Foundations accordingly have a special obligation to chip away at the massive challenges nonprofits face – evaporating government funding, intensifying pressures toward privatization and many others.

A good place to start would be for foundations to invest in nonprofit efforts to go to scale.

The incredible work that Menorah Park and Entrepreneurs for Sustainability are doing is characteristic of the national nonprofit landscape. But how many times have we seen grants that would permit nonprofit organizations to extend these kind of clear economic and social benefits to an ever-expanding number of people or to adapt them to different settings? Far too few. Foundations need to invest in what is working to help it stabilize and expand.

A second modest step would be for philanthropy to assist in opening new channels of nonprofit capitalization.

At Kresge, we have long assumed that providing a challenge grant to increase individual giving to a nonprofit's capital campaign is the best way to promote an organization's capacity. Sometimes that is true. But many times it is not. We are starting along a path that calls upon us to look as hard at other forms of capitalization as we will at the role of a building project:

- Creating thoughtful long-term business plans.
- Developing working capital reserves to bridge through times of tight cash flow or to permit exploration of new ideas.
- Exploring innovative financing instruments that tap traditionally inaccessible forms of investment capital.

II. Implications: The Case Study of Regional Growth

So there's the model. Philanthropy applying its unique institutional assets to prod, catalyze, supplement and otherwise help each of the other sectors take on society's large issues.

A friend of mine warned me that many of you in the audience would nod politely at all of this, but remain skeptical that this is a role that many, if any, foundations are prepared to play. We're too independent. Too unsystematic. Too reluctant to attack root causes.¹³

I want to test the proposition with the here-and-now example of regional sprawl and urban disinvestment. You could choose any number of examples, but my good friend Ed Skloot of the Surdna Foundation suggests why this is a good place to focus:

“It is a question of addressing the principle of common responsibility for common assets: the natural and built environment, the fabric of integrated communities, the economic and cultural wealth of cities. ... Seen in that light, smart growth is not just another social cause among many. It is a fundamental exercise in wise civic stewardship.”¹⁴

Ed is right, of course. But in place after place across this country, we're not getting it right:

- Middle-class residents continue their flight to outer-ring suburban communities, concentrating poverty and exacerbating disinvestment in our core cities and older suburbs.
- Traffic congestion is increasing, generating thousands of hours of lost productivity, countless tons of carbon emissions and incalculable incidents of road rage and general crabbiness.
- Open space is consumed insatiably, imperiling some of our most treasured natural areas and farmland.
- And on and on.

We concluded at McKnight and Kresge that the only way to affect these broad dynamics was to use the four philanthropic qualities I've discussed to leverage the other sectors into the game in a different way. Let me be specific.

First, foundations need to invest in applied research from the academic sector to clarify existing conditions and crystallize the case for change.

You can't tame it if you can't frame it. Given the extraordinarily complex set of interrelated challenges that impede equitable regional growth, it's not self-evident where to start. Uncompromising research and analysis is indispensable.

A national coalition of foundations has, for example, invested in research by the Brookings Institution about the possible paths of resuscitation for older industrial cities – working-class towns like Cleveland, Detroit, Pittsburgh and Philadelphia.

This project conveys to state and municipal leaders the message that the unique cultural, physical, historic and economic assets of these cities furnish a lever for regional health. And it suggests in very concrete terms how to assemble the right policies, strategic investments and implementation vehicles to take advantage of those assets.

Second, foundations can serve a catalytic role in drawing together private-sector leadership coalitions focused on removing barriers to the region's economic competitiveness.

Responding to the business community's concerns that the Twin Cities region was becoming complacent about its ability to compete with other metropolitan areas, McKnight brought together the CEOs of the region's three dozen largest employers, together with the mayors of Minneapolis and St. Paul, the governor and the president of the University of Minnesota, to create the Itasca Project. It is now in its fifth year. A number of things are noteworthy about Itasca.

To start with, it was a civic agenda, not simply a business agenda. Three of the six topics on which Itasca focused – early childhood development, transportation reform and regional economic disparities – drove the government-affairs representatives of the companies crazy because they fell outside the fence line of the state's traditional low-tax, minimal-regulation business agenda. But the CEOs, to their enormous credit, took the broader view and stuck to it.

Second, it was staffed largely by the nonprofit sector. McKnight funded McKinsey to do the core coordination. But the three topics I just mentioned were staffed by nonprofits – which also drove the government-affairs folks nuts. The CEOs were surprised, and impressed, that these organizations could bring such sophistication and professionalism to the task. It was an invaluable exercise in bridge-building.

And third, the impact has been dramatic. Itasca helped develop, and secure passage of, a multiyear, multibillion-dollar legislative commitment to improve the state’s transportation system.¹⁵ It launched a highly visible public information campaign to call public and business attention to the growing economic disparities between the region’s majority white population and its communities of color. It threw its weight behind an early childhood legislative agenda.

Returning to the third leg of the regional table, foundations can partner with the government sector to develop the kind of long-term investment frameworks that draw capital back to the inner city and moderate growth at the region’s edge.

The public sector is notoriously poor at figuring out how best to use the leverage of foundations, looking most often to enlist help for small-bore, in-the-moment crises. And foundations aren’t so hot at figuring out how to tango with them either, tending to view the municipal political arena as some elaborately disguised version of the World Wrestling Federation’s Smackdown. Actually, as I think about it, coming from the state that produced Gov. Jessie Ventura, I have to admit they may have a point.

Nevertheless, both sides need to learn a new set of dance steps. A couple of examples:

- At McKnight, we underwrote a path-breaking, citizen-based regional visioning process that the Metropolitan Council desperately wanted but for which it couldn’t justify using public dollars – it became the blueprint for the region’s long-term infrastructure investment strategy.
- The Cleveland and Gund foundations have invested in a first-of-its-kind fund that is committed, in close coordination with elected officials, to searching out the leverage points for northeastern Ohio’s future economic growth.
- Kresge and the Detroit foundation community have begun a conversation with Mayor Kilpatrick about how to align foundation resources with redesigned public services in a half-dozen neighborhoods in an effort to demonstrate that it is possible to rebuild the confidence of residents and investors alike in some of the most distressed real estate in North America.

Fourth, and finally, foundations can invest in the nonprofit sector's ability to advocate for stronger, more equitable regional service systems.

A regional growth agenda can all too easily focus exclusively on some variation of a high-road economy based on nanotechnology, biomedical devices or photovoltaics. That knowledge-driven economy is, without question, a crucial gateway to 21st-century competitiveness. But, when all is said and done, it risks bypassing many of America's working poor – those 90 million Americans, one out of three, earning less than \$40,000 a year.

As I noted earlier, nonprofits are an important moral circuit breaker in exactly these circumstances. First, they provide the essential supports for people of color, immigrants and people of diverse religions and cultures to join the regional economic mainstream – through entrepreneurial assistance, workforce training, homeownership programs, financial literacy, child care and on and on.

Second, the breadth of nonprofit activity mitigates the strong impulse to relegate the arts, the environment and human services to the margins of a regional economic development agenda. The challenge here is for nonprofits to develop the ability and will to navigate the often-distasteful and invariably messy realm of public policy – both to educate policymakers about the implications of their decisions and to take before the public a set of beliefs and activities rooted in the old-fashioned American value of the common good.

Third, nonprofits' ability to give public voice to their collective missions centers a region's attention on the need to make systematic and sustained progress in reducing educational, economic and political disparities. In the Itasca Project, for example, it was the nonprofits who helped the business community understand that reducing disparities will contribute to a more competitive workforce, a region's most important asset and the strongest driver of future economic growth.

My experience with regional growth suggests, therefore, that philanthropy can indeed draw each of the sectors into a different relationship to the whole, furnishing the lift that no other sector can supply, providing the kind of catalytic investments that truly alter the region's basic chemistry.

III. Conclusion

So let me conclude with just a thought about what all this might mean going forward.

There's an old Asian saying, "Everything rests on the tip of intention." It implies a very close relationship between outcome and motivation. I've always thought that this applies not only to individuals, but to institutions as well.

In the world of public service, all of our institutional values and principles grow directly out of our fundamental intention to help others, especially those who are less fortunate. We shift and adjust, we expand and contract, we assess and respond – but we always keep our original intention in clear view, spurring our dreams of new and better ways to serve.

But intention alone is not enough. It must be accompanied by purposeful, strategic, collective action. Our recent track record on that score is not so hot – either locally or nationally. That is no longer acceptable.

The key is, of course, leadership. At all levels, in all sectors, at any time, to be sure. But to be truly effective, it needs to be focused, interdisciplinary and timed to make a difference. And there's the rub.

The academic sector, despite its many virtues, is ill-equipped to lead. The private sector is immobilized by bottom-line pressures. The public sector is paralyzed by ideological rigidity and a penchant for electorally self-serving gesture politics. The nonprofit sector can innovate and respond, but has its hands full just keeping the lights on.

So it falls, in my book, to philanthropy to get things started. But don't wait for us to show some signs of life. Get to know the foundations in your community. Understand what they do, who they are and where they're headed. We in philanthropy may not stand for election, but we're not immune to carefully orchestrated, thoughtful pressure. So use your talents, your influence and your passions to shine a light on us. Push. Cajole. Suggest. Insist. We need all the help we can get.

Thank you, and good luck.

¹ See Edward Skloot, “The Nonprofit Sector and the Market: Challenges and Opportunities,” in *Beyond the Money: Reflections on Philanthropy, the Nonprofit Sector, and Civic Life*, p. 77 (Surdna Foundation: 2007). Skloot observes: “To find the right strategy will require going beyond those familiar archetypes that frame our knowledge. You know, government regulates and defends us; the private sector provides goods and services for us; and nonprofits foster the civic and charitable spirit in us. These are all true, but they’re much too one dimensional.” Id.

² See Edward Skloot, “Is Distinguished Philanthropy Still Possible?” in id., pp. 36-37.

³ In selecting these four qualities, I’ve relied heavily on the brilliant thinking of Paul Ylvisaker. See Paul Ylvisaker, “The Spirit of Philanthropy,” address to the 38th annual conference of the Council on Foundations, Atlanta, March 1987, reprinted in Virginia M. Esposito, ed., *Conscience & Community: The Legacy of Paul Ylvisaker* 346 (Peter Lang: 1999).

⁴ See The American Assembly, “Trust, Service, and the Common Purpose: Philanthropy and the Nonprofit Sector in a Changing America,” Final Report of the 93rd American Assembly (April 23-26, 1998), reprinted in Clotfelter, Charles and Ehrlich, Thomas, ed., *Philanthropy and the Nonprofit Sector*, pp. 517-30 (Indiana University Press: 1999). See also Zeckhauser, Richard, “The Muddled Responsibilities of Public and Private America,” in Knowlton, Winthrop and Zeckhauser, Richard, *American Society: Public and Private Responsibilities*, pp. 45-77 (Ballinger Publishing: 1986).

⁵ See Karl, Barry, and Karl, Alice, “Foundations and the Government,” in Clotfelter and Ehrlich, op cit., p. 58; Ed Skloot, “Moving From Satisfaction to Significance,” op cit., pp. 6-9.

⁶ Foundation funding can, moreover, serve as a counterweight to the leveling influences of political and commercial markets that seek the quick turnaround, tangible payoffs and formulaic outcomes of self-interested research. See Edelman, Gerald, “Profits and Prophecy: Partial View of American Science near the Millennium,” in Knowlton and Zeckhauser, op cit., pp. 223-48 (Ballinger Publishing: 1986). Foundations can also create knowledge repositories and dissemination channels that are extraordinary in their reach and depth. And yet, we have to do a far better job. Ed Skloot writes, for example: “[Most] philanthropy operates in isolation. Knowledge and information are compiled and tucked away. ... We must build hubs of an open network that constantly grows and nurtures its members.” Edward Skloot, “Is Distinguished Philanthropy Possible?” in Edward Skloot, op. cit., p. 40.

⁷ See Skloot, Ed, “Philanthropy’s Role in Building an Effective Citizenry,” in Edward Skloot, op. cit., pp. 98-115. See also Keeter, Scott, et al., *The Civic and Political Health of the Nation: A Generational Portrait*, a report of the Center for Information and Research on Civic Learning and Engagement, September 19, 2002, cited in Skloot, id.

⁸ The American Assembly’s 1999 report on philanthropy noted, “increasingly ... business leaders are

finding that it is necessary to align their financial, human resource and business objectives with the pursuit of important social objectives. This alignment goes well beyond making charitable contributions and even involves core business functions.” The American Assembly, “Trust, Service, and the Common Purpose: Philanthropy and the Nonprofit Sector in a Changing America,” Final Report of the 93rd American Assembly (April 23-26, 1998), reprinted in Clotfelter and Thomas, *op cit*, p. 525.

⁹ Walzer, Michael, *op cit.*, p. 83. Despite these differences, however, there is ample space for foundations and corporations to work in common purpose. Corporate foundations have become a mainstay of disaster-relief efforts, educational reform, urban revitalization efforts and countless other causes. Individual corporate leaders have stepped into the public policy arena to champion issues as diverse as early childhood education, natural resource protection, school reform and urban safety. And private-sector entrepreneurs have wandered into all sorts of interesting terrain through their adoption of so-called “venture philanthropy” – from AOL’s Steve Case’s efforts to promote microenterprise in Africa to Paul Newman’s investments in Hole-in-the-Wall camps for kids with serious illnesses.

¹⁰ The role of the public sector is, ultimately, to create what John Gardner called the “institutional arrangements for community maintenance.” Gardner, John, “Building Community,” in *Living, Leading, and the American Dream*, Francesca Gardner, ed., pp. 190-91 (Jossey-Bass: 2003).

¹¹ Paul Ylvisaker, *op. cit.*

¹² One observer has termed this sector the civil society sector, describing it as “an ebbing and flowing and ever-changing collection of entities engaged in largely uncoordinated, privately generated activities for multiple public purposes.” Boris, Elizabeth, “The Nonprofit Sector in the 1990s,” in Clotfelter & Ehrlich, *op cit.*, p. 24. Boris notes that although only one in 25 nonprofits has expenses of more than \$20 million, these smaller nonprofits account for almost \$7 out of every \$10 spent by the field. *Id.*, p. 17.

¹³ See Edward Skloot, “Let’s Face the Music and Dance,” in *op. cit.*, pp. 125-26.

¹⁴ Edward Skloot, “Hyperbole, Shrinking Budgets and Government Devolution,” in *id.*, page 116.

¹⁵ Itasca assembled a coalition of almost 20 business, nonprofit, foundation and government organizations to develop a comprehensive, long-term approach to transportation. Its members worked directly with legislators to convince them of the need for progress. This work ended up in the passage of a statewide ballot initiative amending the constitution to free up significant new dollars for transit. Itasca also moved quickly to iron out a new working relationship between the University of Minnesota and the private sector to share research efforts and to develop a systematic process to encourage the growth and retention of Minnesota’s largest companies.