

# Stanford SOCIAL INNOVATION<sup>Review</sup>

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*Supplement*  
**Philanthropy as a Catalyst**  
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# Philanthropy as a Catalyst

Foundations aspiring to make a difference in challenged cities have much to offer beyond grantmaking—if they are willing to embrace new roles that may fall well outside their comfort zones.

BY JAMES M. FERRIS

**P**hilanthropy has acted boldly in reimagining Detroit: taking a leadership role in its revitalization, making big bets on the city's future, and acting as a catalyst for others' efforts. And in the process, these committed leaders have also reimagined themselves—recalibrating their roles vis-à-vis the government and the for-profit world. They have developed new rules of engagement across the sectors, and—given the impact their work is having—they are also suggesting new ways in which philanthropy might contribute to building stronger communities elsewhere.

Consider Detroit's Grand Bargain—the initiative that brought the city out of bankruptcy. In response to the bankruptcy mediator's request for “fresh money,” a group of foundations negotiated agreements that led to \$370 million in donated funds to shore up the city's finances. That bold move enabled Detroit to emerge from bankruptcy a mere 18 months after filing and set a promising trajectory for revitalization. (See “Detroit's Grand Bargain” on page 12.)

The Grand Bargain has gotten a considerable amount of well-deserved press. But even before it was made, many of the participating foundations had become instrumental in shaping Detroit's revitalization efforts in unorthodox ways. The New Economy Initiative (NEI), which aggregates capital to promote small-business development, represents the work of 10 foundations that have collaborated since 2001, stepping outside of traditional philanthropic boundaries to take on a role traditionally played by local government and financial institutions.

Detroit Future City (DFC), an urban planning and land use framework, provides

another example. Developed with support from The Kresge Foundation, the W.K. Kellogg Foundation, and the Detroit Economic Growth Corporation, in cooperation with city government, DFC is being implemented outside the auspices of the local planning department with the support of an expanded group of foundations and public agencies.

The M-1 RAIL, the streetcar set to open in 2017 along the Woodward Corridor in the heart of Detroit, is another exciting philanthropy-driven initiative. Championed by The Kresge Foundation as well as by prominent business leaders and private institutions, it has the potential to become the backbone of a regional transit network that sparks new economic growth as it connects people to jobs, education opportunities, shopping venues, and other resources that signal urban vibrancy.

These efforts are emblematic of the var-

to happen) because of the caliber of philanthropic leadership at work in Detroit.

## PHILANTHROPIC LEADERSHIP AS COMMUNITY ANCHOR

In a previous era, business leaders often provided the continuity to ensure consistent, effective leadership across city administrations. This was particularly true in Detroit, where the auto industry was deeply entrenched in the city's urban communities. But the crosswinds of globalization and the auto industry's economic struggles impacted the private sector's ability to play this role, leaving a void. Philanthropic leaders stepped in to serve as an anchor, but they did so knowing that it would take the collaborative efforts of philanthropy and business to serve as a sustainable anchor. They knew that new models of urban governance would require both *adaptive* and *distributed* leadership.

THE SCALE OF THE PHILANTHROPIC RESPONSE IN DETROIT WAS NEVER A GIVEN, NOR WAS IT EXPECTED. IT HAPPENED (AND CONTINUES TO HAPPEN) BECAUSE OF THE CALIBER OF PHILANTHROPIC LEADERSHIP IN DETROIT.

ied ways that philanthropy can serve as a catalyst for action in cities—sometimes as the first mover, sometimes as a partner to business and government, and sometimes as the nudge that gets government moving.<sup>1</sup> No doubt the exceptional circumstances in Detroit created opportunities for philanthropy to step in and step up in areas where we commonly expect the government and business to lead, such as business and economic development, urban planning, and public infrastructure. But the scale of the philanthropic response in Detroit was never a given, nor was it expected. It happened (and continues

*Adaptive leadership* is essential when a mission (such as rebuilding a city) necessitates responding in a nonlinear way to unpredictable and unanticipated circumstances across a number of arenas.<sup>2</sup> Leaders must be open to learning from dynamics on the ground and adapting their efforts accordingly. They have to be willing to wade into a world that is messy and ambiguous, be diplomatic in the context of politics and issues of race and class, and still persevere. *Distributed leadership* is equally important in that no single actor or sector is going to be able to drive change in a complex system of

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such a grand scale as Detroit. Multiple leaders, from multiple sectors, have to work together, both formally and informally, to give the city's transformation efforts the consistency they need to take hold.

In the case of the Grand Bargain, adaptive and distributed philanthropic leadership across a set of foundations provided the vision and commitment needed to help the city emerge from bankruptcy by cushioning reductions in pensions, preserving the art of the Detroit Institute of Arts, and at the same time laying the groundwork for the restora-

tion of public services. Working well outside of their comfort zones, and without a playbook to guide their actions, these foundations were able to create a mechanism in a matter of months—the Foundation for Detroit's Future, housed at the Community Foundation for Southeast Michigan—for pooling their contributions and developing a process for holding the city to the agreement and contributing to the pensions over the next 20 years.



*Capital Park Historic District in Downtown Detroit, site of several architectural gems.*

the outer limits of philanthropy's long-established risk envelope. The stakes were so high and the risks of inaction so great that the practices of the past would simply not get us where Detroit needed to go. We had to tap our corpus for \$100 million—our largest grant ever—and not simply redirect money pre-allocated to rebuilding Detroit's physical, social and cultural fabric. We had to arc to the dream of a city reborn, not simply measure the situation against fine-tuned program priorities. We had to condition our

cession. As Matt Cullen, president and CEO of Rock Ventures, noted: "I get the skeptics . . . but this is the right group of assembled leadership. [T]o use a train analogy, once it gets moving, gets momentum, it's difficult for people to stand in front of it. I analogize it to the Riverfront: you get the right people in the room and are inclusive in the process, and get people enthusiastic about it, and you can get things done."<sup>4</sup>

Similarly, DFC, launched in 2010, is succeeding as a result of the efforts of philanthropic

support on fiercely negotiated conditions, not simply create a pool of unrestricted capital. We had to actively lead."<sup>3</sup>

Adaptive and distributed leadership also led to the development of the M-1 RAIL. The Kresge Foundation has provided leadership for the project together with the business community—Rock Ventures, Penske, General Motors, and other businesses—as well as a number of academic and health institutions such as Wayne State University and Henry Ford Health System.

This group was able to press on even as the city backed off in the face of the Great Re-

leaders, a quasigovernmental agency, and community members. The project engaged city leaders, technical experts, city residents, and other stakeholders to develop a strategic framework for Detroit, and published that framework in January 2013.<sup>5</sup> Subsequently, the DFC Implementation Office, created in January 2014 with the support of an expanded group of foundations and state and local authorities, is working to bring that vision to reality.

In each of these examples, philanthropy was able to lead, not by dollars alone, but by leveraging all of its assets—expertise, reputa-



tion, and networks—to address public problems. These foundations purposefully forged relationships and networks with stakeholders in the community. They also consciously developed intellectual capital about programs and places. That latter behavior brings to light another important reason why they have proven effective leaders. In addition to embracing adaptive and distributed leadership, these philanthropies have risked developing and advancing a point of view. Foundations that aspire to be changemakers must be much more than grantmakers. The conventional view that “it is not about us” must give way to the willingness to set a course and stand by it. Foundations can create and maintain a point of view to great effect, as long as they are credible and transparent.

#### ENABLING APPROACHES AND PRACTICES

As philanthropy assumes a bold leadership role, it also challenges many of its conventional practices. It is imperative that foundations embrace new approaches that enable and support the catalytic role they aspire to fill. Doing so includes: establishing new rules of engagement that establish *credibility and legitimacy*; embracing an *elasticity of roles*; developing new frameworks that account for the *complexity of cities*; designing strategies to build *civic capacity*; and adopting practices that build *trust*. There are glimpses of all these in philanthropy’s efforts to help revitalize Detroit.

**Credibility and legitimacy** | As philanthropy enters into new territory that has

traditionally been the province of government, it will need to learn how to excel at community engagement. The DFC process and the community’s embrace of the framework it produced owes much of its success to the fact that a large number of residents and stakeholders from across the neighborhoods of Detroit were included and involved in the work. The willingness of philanthropy to endure the bumps in the road that characterize the unpredictability and messiness of authentic community engagement was essential to what DFC has been able to achieve. Community engagement is not really a choice if philanthropy is going to step into traditionally public roles; in the absence of the transparency and accountability of government, it is a necessity.

## Detroit’s Grand Bargain

In March 2013, Michigan’s governor, concluding that the City of Detroit was in dire financial straits, declared a financial emergency under state law and appointed Kevyn Orr as emergency manager. And in July 2013, after wrestling with fiscal obligations and the projected revenues, Orr filed for bankruptcy in federal court. This move allowed the court and its mediators, led by Judge Gerald Rosen and Eugene Driker, to create the terms upon which the city’s creditors’ claims could be resolved, and they did so—laying the groundwork for the restoration of the city’s public services and creating the opportunity for revitalization.

It was a chance encounter in a deli between Judge Rosen and Mariam Noland, president and the CEO of the Community Foundation for Southeast Michigan (CFSEM), that galvanized the efforts to pull Detroit from the brink of disaster quickly. That encounter led to a meeting on November 5, 2013, of a group of foundations and the court’s mediators to explore the ways in which they might be able to work together to end the bankruptcy as soon as possible. That meeting led to the commitment to provide “new money” that would soften the reductions in retirees’ pensions, avert the potential sell-off of the art of the city-owned DIA, and also resolve other claims against the city.

The new-money idea was not the brainchild of philanthropy. But importantly, it reflected recognition on the part of others—in this case the judge who was the mediator in the bankruptcy case and the city’s emergency manager—to see philanthropy as a key to solving a problem for a city in a fiscal crisis. The foundations came to understand that their actions could lead to other contributions and agreements that would not only make it possible to resolve claims against the city without years of litigation, but also create opportunities to collaborate on other initiatives supporting the revitalization that would expand the city’s tax base.

A mere two months later, on January 13, 2014, Judge Rosen announced that nine foundations—CFSEM, Kresge, Ford, Knight, Davidson, Erb, Hudson-Webber, McGregor, and Mott—had

pledged a total of \$326 million. They varied considerably in size, history, and mission—representing national foundations with roots in Detroit and Michigan, as well as local foundations with a focus on Detroit—but they shared the belief that building a stronger Detroit and improving the lives of its residents was an important role for philanthropy to play.

The fund subsequently grew to \$370 million with Kellogg and Skillman signing on, and the Fischer and Schaap foundations making contributions totaling \$7.5 million credited as part of the DIA commitment. The foundations created the Foundation for Detroit’s Future, housed at the CFSEM, to serve as a conduit for funds over a 20-year period, including the oversight needed by the foundations to hold the city accountable for meeting the terms of the agreement.

With philanthropy stepping up, the mediator was able to persuade the governor to spearhead a Republican legislature to appropriate \$190 million (the equivalent of \$350 million over a 20-year period) and persuade the DIA to commit \$100 million (including significant contributions from a number of leading corporate citizens, national foundations with a sharp focus on the arts, and committed art donors). With over \$800 million from the Grand Bargain, the city was able to resolve the bankruptcy, with retirees agreeing to reductions in their pension benefits and private sector creditors settling their claims with the city.

Philanthropy’s contribution was the catalyst that led to this Grand Bargain. Detroit emerged from bankruptcy on November 7, 2014, staving off years of litigation about the pension reductions, preserving the DIA collections through an independent entity, and having a “plan of adjustment” that creates a road map for the city’s future finances.

The city could have been embroiled in the courts for years, incurring legal costs and discouraging investment. Instead, the Grand Bargain has given Detroit an opportunity to write a narrative of hope for the future. ●

**Elasticity of roles** | Developing elasticity is another element of success. Philanthropy must be able to rise to the occasion when needed, bending conventional practices as necessary to do so, and then be willing to pull back and play a supporting role when government is able and willing to reassert itself. The real challenge is getting the timing right. The DFC is, again, illustrative. Philanthropy played a pivotal role in launching and supporting the planning process. But as the plan is implemented, philanthropy needs to be ready to shift gears once again. As the implementation unfolds, in fact, government will have an important role to play, as there are formal rules and policies integral to implementing some aspects of the framework.

## AS PHILANTHROPY ENTERS INTO NEW TERRITORY THAT HAS TRADITIONALLY BEEN THE PROVINCE OF GOVERNMENT, IT WILL NEED TO LEARN HOW TO EXCEL AT COMMUNITY ENGAGEMENT.

The development of the M-1 RAIL is a good example again here, too. Philanthropy and the private sector stepped up in 2008 when the need for connecting the Downtown, Midtown, and City Center areas was evident and the fiscal climate made it impossible for the city to meet that need. But their roles are likely to recede somewhat when the streetcar begins operating in 2017.

**Complexity of cities** | Aside from adjusting to changing rules of engagement, philanthropy focused on rebuilding cities needs to rethink how it frames its work. That is, it is important to conceptualize the city as a geographic system that requires concurrent work on a number of interdependent fronts, such as the built environment, transportation, economic development, and public services. Foundations must figure out how to intervene in a coordinated way that also recognizes the influence of markets and public policy.<sup>6</sup> Think of it this way: Some foundations that focus on particular programmatic areas, such as education, have come to understand that they can expand their impact by working on the education system, and the same principle applies to places. Such an approach only reinforces the need for distributed leadership, where different foundations, businesses, and community groups step up at different

times and on different issues to provide anchor leadership for the city.

In addition, the manner in which foundations acted to achieve the Grand Bargain, and the role of The Kresge Foundation and its private sector partners in the M-1 RAIL initiative, demonstrate a capacity to be nimble, flexible, and adaptive and to act as conditions unfold on the ground. In a world of strategic philanthropy, leaders take time to develop and refine their approaches before taking action, but that path isn't always possible when the goal is system change. In these cases, Julia Stasch, president and CEO of The MacArthur Foundation, suggests adopting a "design-build" approach that combines thinking and planning with doing. This sort of approach requires a

more formal commitment to learning and a recognition of what is not known. It also requires the ability and willingness to develop, challenge, and modify hypotheses continually—even if doing so represents a significant mind-set shift.

**Civic capacity** | At the same time that philanthropy is stepping up to lead, it is important to ensure that it does not totally supplant government. Philanthropy can help build capacity in cities by supporting infusions of resources in building particular public systems, such as schools or social services, as well as help build the civic infrastructure, including the capacity of government. For example, in Detroit, philanthropy placed its own hires in city government offices to help city employees develop processes to make their work more effective and efficient, and, in many cases, simply to help out. Philanthropic staff assisted the city in performing management audits, tapping federal formula dollars, and improving the permitting process to facilitate better economic development outcomes.

**Trust** | A more proactive and visible philanthropy will inevitably find its credibility challenged. To meet those challenges head on, foundation leaders and staff must engage in open and authentic ways across diverse and varied neighborhoods and communi-

ties. It's critical to recognize and address the distrust and skepticism present in many distressed areas; if foundations don't do this, they are much more likely to repeat the mistakes made by previous programmatic and place-based initiatives. Gaining the genuine input and support of a broad public opens up channels of communication for critical feedback, and it can go a long way toward legitimating a foundation's leadership position.

### RECALIBRATING PHILANTHROPY'S ROLE

These new roles for philanthropy in Detroit suggest a recalibration—not a redefinition—along with associated rules of engagement. That is, foundations aspiring to take on bolder civic-leadership roles need to continue to build from their strengths, and also seek to understand and leverage the great value of the resources they can muster beyond the grants they provide—their relationships and networks, their independence, and their ability to inspire confidence in the future.

The ability of a set of foundations to come together to provide the opportunity for a more prosperous future for Detroit through the Grand Bargain, or to work with the city on a new framework for land use, or to promote business development through NEI, or to get the M-1 RAIL off the ground, is testament to how philanthropy can act on its aspirations. By stepping outside of its traditional roles and adopting new ways of working, philanthropy can contribute to a new model of urban governance. Philanthropies supporting other challenged cities take note: Catalytic, transformative work is within your grasp. ●

#### Notes

- 1 Two other notable examples are the Detroit Neighborhood Forum, a monthly meeting of leaders from the philanthropic, banking, nonprofit, and public sectors, focused on discussing community priorities, and the coordinated investments of the Knight, Erb, Hudson-Weber, McGregor, and Kresge foundations in the arts and culture ecology of Detroit.
- 2 Ronald A. Heifetz, John V. Kania, and Mark R. Kramer, "Leading Boldly," *Stanford Social Innovation Review*, Winter 2004.
- 3 Rip Rapson, "A Treatise on the Future of Philanthropy," *The Kresge Foundation Annual Report*, 2014.
- 4 "M1 Rail Chief Cullen: The Right People Are in the Room, Money Is There," Model D, March 16, 2010. The reference to "the Riverfront" is another successful cross-sectoral effort in Detroit; for more background, see: [www.detroitriverfront.org](http://www.detroitriverfront.org).
- 5 [www.detroitfuturecity.com](http://www.detroitfuturecity.com).
- 6 Elwood M. Hopkins and James M. Ferris, *Place-Based Initiatives in the Context of Public Policy and the Market: Moving to Higher Ground*, The USC Center on Philanthropy and Public Policy, March 2015.