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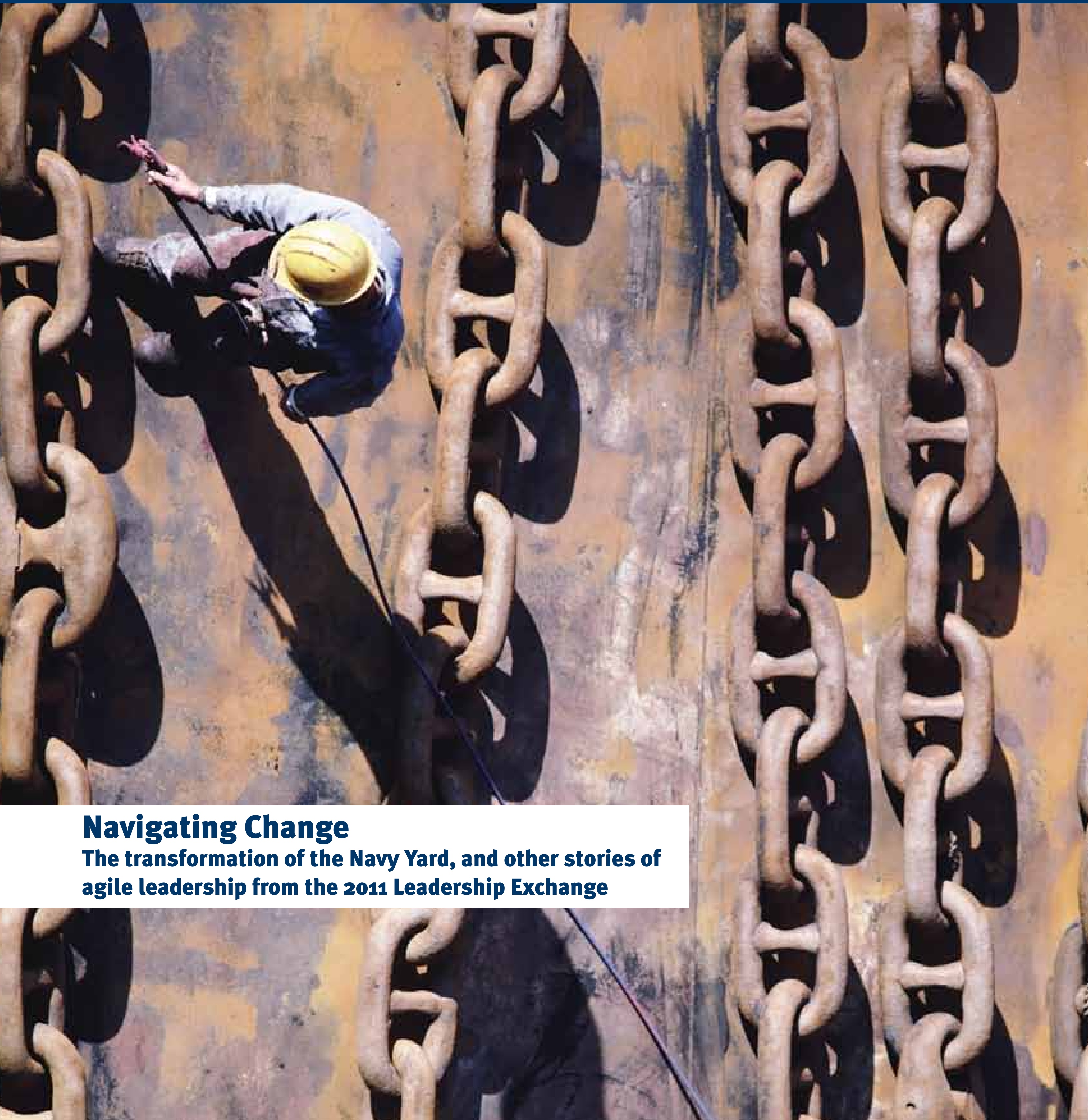
ISSUES AND IDEAS FOR GREATER PHILADELPHIA'S LEADERS

VOLUME 5 2012



Navigating Change

The transformation of the Navy Yard, and other stories of agile leadership from the 2011 Leadership Exchange

insight

ISSUES AND IDEAS FOR GREATER PHILADELPHIA'S LEADERS VOLUME 5 2012

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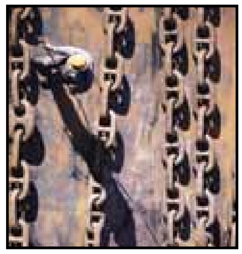
PHILADELPHIA SHIPYARD



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EDITOR: ALLISON KELSEY

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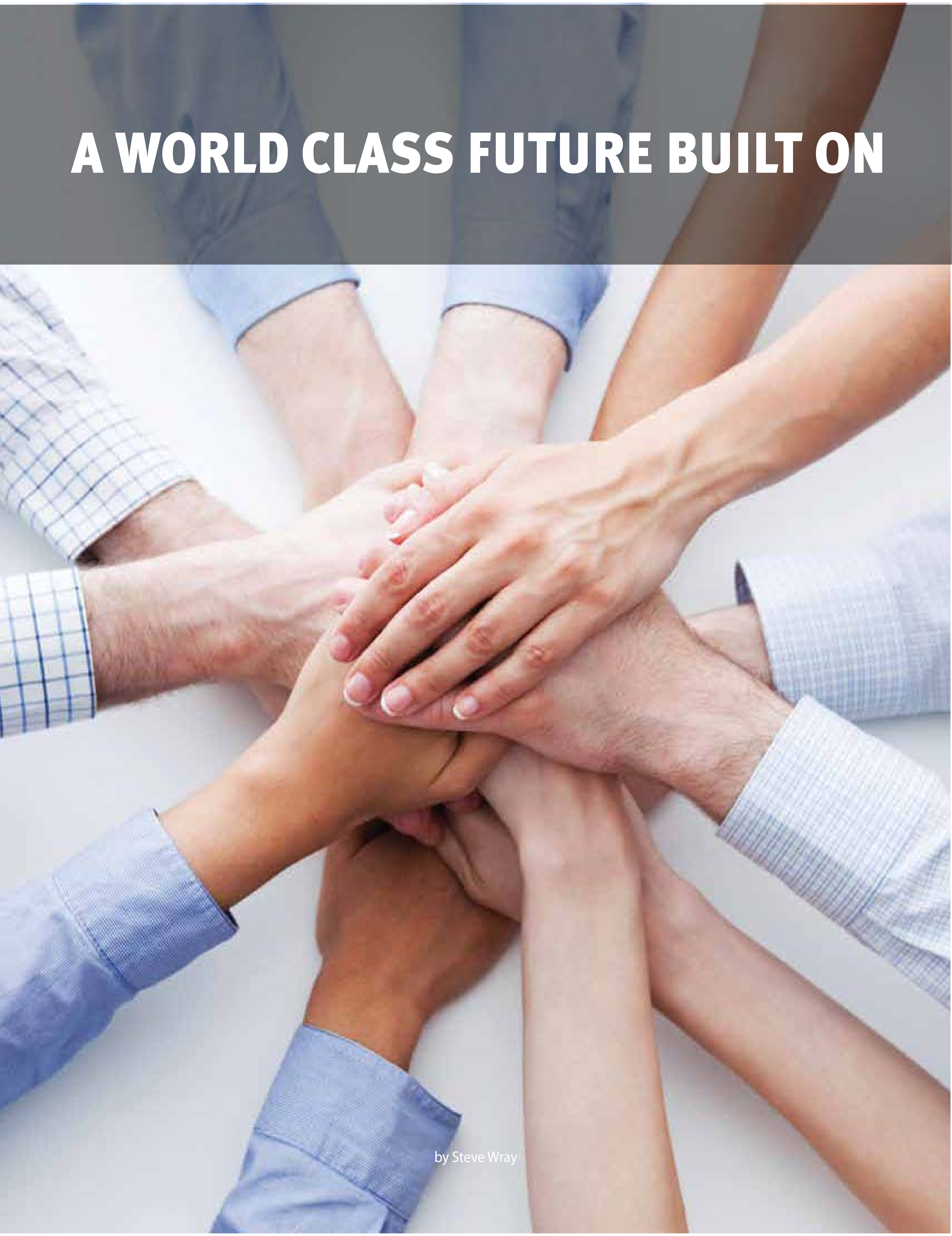


A WORLD CLASS FUTURE BUILT ON TRUST

by Steve Wray

This year's Leadership Exchange took place in the shadow of distrust – cast not by participants, but by the thousands of Americans gathering under the banner of Occupy Wall Street. Even as we rode the elevators to the conference rooms atop Three Logan Square, protesters in cities large and small were preparing to spend another day delivering a message: "We don't trust our leaders anymore."

So it was no surprise that an attendee asked Doug Conant what he thought of the Occupy movement. The man who saved the Campbell Soup Company replied that there's only one way to restore trust: earn it.

"The corporate world's story is probably not as well told as it needs to be. But that's a cop-out. We have to do better. It has to be unmistakable.

"There's a lot of stress, and it's not surprising that there's a lot of civil unrest," said Conant, who in the space of three days of speaking visits was confronted by Occupy Washington, Occupy Wall Street, and Occupy Philadelphia. "The corporate world's story is probably not as well told as it needs to be. But that's a cop-out. We have to do better. It has to be unmistakable. Our commitment to the community has to overwhelm the populace. What we're doing is insufficient."

It was a response that fit directly with his keynote speech to the Greater Philadelphia Leadership Exchange that morning. To turn Campbell Soup around – to make it a world class company, delivering a world class product on a world class timetable – Conant had to start by winning the trust of his employees. He had to prove that he was as committed to them and their communities as he was to the health of the company. He had to demonstrate his will to hold every worker – from executives to labor, from top to bottom – to the same high standard, while treating each person with an equal level of compassion.

The result was a major shakeup and world class results. The company is healthy. The bonds between the workforce, management, and the community are strong. Stakeholders and employees have found common purpose, and Conant feels his strategy has been validated.

"We want to win in the workplace," Conant explained. "We want to create a workplace where people are highly engaged in the work. As they lean into their work, we find we're able to win in the marketplace. As we win in the marketplace, we find we're able to contribute more to our communities."

So what's the lesson for Greater Philadelphia's leaders?

The lesson is to embrace this cycle: world class results depend on collaboration; collaboration depends on trust; trust is built when we commit to, and deliver, results that matter to our partners.

TRUST IN ACTION

Throughout the Exchange, whether the topic was mergers, policy reform, or organizational leadership, we returned to trust as the essential precondition for successful collaboration. Where it isn't present, it has to be built.

Take the merger of Philadelphia Futures and White-Williams Scholars. Its logic was obvious: the two scholarship organizations shared much in the way of mission and vision. But the merger was possible only after a long, careful exercise of trust-building that started with frank conversations between leaders and ended with a highly detailed due diligence process.

"You need to understand the liabilities that are coming because once you close, there is no recourse," said Philadelphia Futures' head Joan Mazzotti. "There are no shareholders to sue. We had to both be sure of each other." Even with that, Mazzotti said, the process is far from over. The two organizations have just begun to blend their day-to-day operations and learn how to deliver on the merger's promise.

David Foster, whose Greater Camden Partnership merged with the Cooper's Ferry Development Association to create the Coopers Ferry Partnership, said that it's only when those results start rolling in that everyone relaxes. "It probably wasn't until we were working together, post-merger, that we really exhaled and said, 'This is going to be okay,'" he said.

Building trust is no less important in the for-profit sector. Robert Moul headed Boomi, a cloud computing tech company that doubled in size after being bought by Dell. Throughout the courtship, Moul had to work hard to maintain the trust of his staff and investors – a role he didn't anticipate. "I ended up being the psychiatrist for everybody," he said. "I was like, guys, we can all make this work!"

Part of what made the deal possible was the trust Dell showed in Moul's tiny venture from the start. "We had about 40 employees, but they treated us as equals," he said. Dell trusted not only Boomi's technical expertise but also Moul's judgment about staying in Greater Philadelphia. "You have incredible universities, incredible talent, a great standard of living," said Moul. "I have almost no unwanted turnover in my team. They're having kids, they're buying houses, and I feel really good about helping them do that."

Building and sustaining trust is vital for the organization that's trying to reshape itself. Conant knew that Campbell couldn't win in the marketplace without clearly demonstrating, through tangible investments in both the workplace and the community, that the company deserved the trust of all 20,000 employees. "It's hard for me to imagine someone passionately caring about our agenda in our company if they don't feel we passionately care about their agenda in life," Conant said.

And on the other side of the coin, we learned that even an organization that resists change would do well to place some trust in those with other ideas. Carmen Medina, formerly of the CIA, jokingly calls herself a "heretic," but by challenging her agency's outdated methods, she helped it tap the power of modern collaborative technology and social networks. Organizations ignore their internal critics at their peril, she said. "There's a lot of work to be done in coaching heretics to be better heretics and coaching managers to be better facilitators of the heretical impulse."

Finally, we saw that where trust has collapsed, systems become dysfunctional. "Exhibit A" is our national education system, where stakeholders at every level struggle to find common ground despite broad agreement that we must do better. "The number of colleges and [businesses] in this country that spend millions of dollars providing remediation is staggering," said Charles Kolb of the Committee for Economic Development. "We're kidding ourselves. We're kicking the can down the road, and we've got kids with high school degrees that can't do second and third grade math."

And yet even in this field, the emerging bright spots of reform are created by partnerships that build and reward trust by clarifying the measures of success and each partners' responsibilities.

"Let's be honest – we've all been in partnerships, and most of them don't make much of a difference," said Jenny Bogoni of the Philadelphia Youth Network, as she described an emerging partnership methodology known as "Collective Impact." Some of its recommendations are technical – for example, effective partners must agree on a system for assessing performance and measuring success. But other essentials are as simple, and human, as a good conversation. "It's about high cell phone bills, and building trust, and going to lunch and dinner together, and being in constant communication," Bogoni said. "This is the most obvious, and easiest, and also the most difficult part."

Navigating change with partners panel: Bob Moul (formerly of Dell Boomi), Joan Mazzotti (Philadelphia Futures), David Foster (Greater Camden Partnership)

Education systems change panel: Doug Scott (McKinsey & Co), Charles Kolb (Committee for Economic Development), Jenny Bogoni (Philadelphia Youth Network)

LESSONS FOR THE REGION

The lesson from the 2011 Leadership Exchange was clear: any dynamic enterprise contains lots of potentially competing elements. Successful leaders get those elements to trust each other, and nothing creates trust like successful partnerships that deliver tangible, world class results.

Whether those competing elements are labor and management, visionaries and the old guard, company and community, or Partner A and Partner B, an enterprise becomes world class only when it gets them working together toward a common goal that not only benefits them but also meets the highest standards of the wider marketplace.

But just as clearly, no enterprise achieves that alignment with a single step. What's needed are a series of steps. Even the smallest results are worth pursuing. As they add up, the bonds of trust between partners strengthen, and new goals come within reach.

We have to do more, we have to stop whining and start performing. To complain that we're misunderstood – the dog ate my homework – it's not enough.

Like any large enterprise, our region is full of competing elements of its own. But we share missions, networks, communities, and a common interest in regional success. Our leaders must learn to recognize the needs of our region's many stakeholders, build collaborative partnerships whose results address those needs, and then strengthen the bonds of trust that make those partnerships possible. In other words, we must keep the virtuous cycle in motion, building partnerships that produce results, strengthen the partners' bonds, and make greater results possible.

And as Doug Conant emphasized, when it comes to trust, results are all that matters. Asked what companies can do to improve their image, Conant's answer was simple: "We have to do more," he said. "We have to stop whining and start performing. To complain that we're misunderstood – the dog ate my homework – it's not enough.

"And you know what? Our employees are up for that," Conant went on. "We can do [more], and we can do it in a way that works for us and the community. We really have no choice."

Former Campbell's CEO Doug Conant addresses the 2011 Leadership Exchange

PULL VS. PUSH

by Bill Hangley, Jr.

LEADING CHANGE FROM IN FRONT OR BEHIND

Here's a riddle. Picture two organizations. One sees a world in constant flux and wants to change in response. The other feels confident in its practices and sees no need to adjust. What do they have in common?

The answer: they both need to change, whether they want to or not. And they both need leaders to drive those changes.

If past Leadership Exchanges have revealed nothing else, it's that the core responsibility of the modern leader is to respond effectively to unrelenting change. If an enterprise sells products, its market is changing. If it serves people, their needs are changing. Wherever it is based, that region is changing.

Which brings us to the two kinds of leaders: those who have a mandate to drive change, and those who don't but who drive change anyway.

This year's Exchange was bookended by leaders who exemplified both.

Doug Conant of Campbell Soup is the epitome of the leader with a mandate. Ten years ago, he took the helm of a company on the ropes: Campbell was losing value, losing market share, and losing the faith and commitment of its workers. Conant's task was to pull the company through a transition. Armed with a comprehensive plan to rebuild its culture, he did.

Carmen Medina is the opposite: a self-described "heretic" who spent years pushing for change in an organization that didn't want to hear about it. She joined the CIA at the tail end of the typewriter age and watched it cling to its Cold War toolkit even as new technology promised vast new possibilities. Only after the CIA failed to assess Saddam Hussein's weapons programs accurately did her ideas start to gain traction. She left having successfully helped the CIA embrace collaboration and the tools of the digital age.

The methods that Conant and Medina used could not be more different. Conant's mandate allowed him to create company-wide systems and openly reevaluate every employee. Medina had to push quietly and steadily behind the scenes by building networks, bending rules, and waiting for the opportunity to put her ideas into play.

But the goals of both leaders were the same: earn the trust of key partners, establish new practices that deliver the necessary results, and return their enterprises to the forefront of their respective fields. One pulled, the other pushed, but both moved their organizations. Here's how they did it.

CONANT: LEADING WITH A MANDATE FOR CHANGE

"At Campbell, we like to think we have a winning portfolio," said Conant. And that might be an understatement. Each year, the Campbell Soup Company racks up $8 billion in sales in 120 countries. It makes some of the industry's best known products: Goldfish crackers, V8 juices, Pepperidge Farm snacks, and the flagship soups that outsell the competition by seven to one.

But when Conant arrived in 2001, Campbell was in bad shape. It had lost half its market share in a single year. Rounds of downsizing left the workforce demoralized and disconnected – and internal surveys proved it. "We had 1.67 highly engaged people for each one who was not," Conant recalled. "We had about 14,000 people doing the work of 20,000."

> *...Pretty much everybody had three years to demonstrate they could get on the program and grow with it, or make a thoughtful choice to get off.*

Conant's team knew that tinkering with a few product lines wasn't going to be enough. Campbell needed to rebuild its culture. "Everybody knew what ended to be done," he said. "They were just waiting to see if leadership had the gumption to do it."

Armed with his mandate, Conant developed a three-year turnaround plan that started at the top. "We turned over 300 of our top 350 leaders," he recalled. "This was not easy. But I had 20,000 employees who were dying under the weight of that management team. Pretty much everybody had three years to demonstrate they could get on the program and grow with it, or make a thoughtful choice to get off."

To recapture lost market share, much of Conant's focus was on bringing innovation both to products and to marketing. Campbell looked for new ways to present its food in stores, new flavors to freshen up old brands, and new ad campaigns to boost soup sales.

But to make those changes possible, Conant needed to harness and reward his employees' creativity and effort. His team quickly established a series of company-wide improvements that helped Campbell build a reputation as an exemplary workplace. It won Gallup's "Great Workplace" award four times. *Computerworld* ranked it one of the best places for IT workers. The Human Rights Campaign called it one of the best places for gay, lesbian, and transgendered employees. Campbell was recognized for its philanthropy, corporate ethics, and efforts to support employee health.

When advertising positions, the company stresses not only performance bonuses and incentives, but a wide range of work/life balance programs including flex-time, day care, on-site gyms and dry cleaners, personal and professional counseling, tuition reimbursement, and even adoption assistance.

"We have to be incredibly tough on standards, because we have to be competitive," Conant said. "But at the same time we have to embrace people in a way that keeps them engaged in the work …. People need to feel valued. And you have to demonstrate, in a tangible way, that you value their agenda." His turnaround plan worked. Sales started rising soon after Conant's arrival and kept going up for eight straight years.

Conant knows what life is like at the bottom of the totem pole. As a student he mopped floors and scrubbed pots in a kitchen, learning quickly to take extra care for the cook who rewarded him with an extra share. "If I took care of her floor," he said, "she took care of my stomach."

From that experience he drew three lessons that helped him pull Campbell through hard times. "First, people need to understand what is expected of them in their work. Then, they need the materials and equipment they need to do their job well," he says. "The third thing you need to do is celebrate their contributions. I can find a busted number in a spreadsheet in a nanosecond. What

Doug Conant

Carmen Medina

you need to do is find things to celebrate in that spreadsheet – where somebody did something right."

Making those celebrations possible is, in some cases, a technical matter. Conant's legacy includes comprehensive assessment systems that measure employee contributions.

But Conant says that what really makes his leadership model work is that it's built around respect: both for the task to be done and for the people who must do it. "All of you have an example in your lives of someone who had a profound influence on you, who had incredibly high standards, and who honored you and cared about your work and your well being," Conant told the Exchange. "I challenge you to be that person for the people with whom you work."

CARMEN MEDINA: A HERETIC AT WORK

Carmen Medina never had the kind of mandate Conant enjoyed. Instead, she spent years pushing for changes that went against a deeply ingrained organizational culture. "I spent 32 years at the agency," said Medina. "For 25 of those years, I was a heretic."

Medina joined the CIA in 1978 and in time became the senior manager of the agency's analysts. But all along, she became increasingly convinced that the CIA needed to undergo serious change. Slowly and steadily she built a network of several dozen like-minded people she calls the "rebel alliance."

At the heart of Medina's concern was technology – specifically, the CIA's failure to fully embrace powerful new tools with which to access and analyze mountains of new data. The agency seemed locked in a Cold War mentality, convinced that national security meant stealing secrets from powerful people. Medina thought it was failing to engage with the emerging digital networks that offer new information and new ways to make sense of it.

...I believe that increasingly, the motor that runs the world are these social forces that are being made increasingly powerful by the revolution in connectivity and information technology.

Medina's heresy wasn't just that she was challenging the CIA's methods – she was challenging its entire worldview. "The agency has to make a strategic bet," Medina said. "What is the motor that runs the word? Is the world run by men in backrooms cutting secret deals? Or is the motor the social changes, the things that happen dynamically?

"Obviously, I think the answer is both – at different times, in different circumstances," she said. "But our entire system was built betting [on] motor number one. That's still in play but I believe that increasingly, the motor that runs the world are these social forces that are being made increasingly powerful by the revolution in connectivity and information technology."

Medina was not alone, but for years the "rebel alliance" enjoyed little success. "We were really determined," she said. "And we made all the usual mistakes – we had conferences, and would invite people into the building to talk about change. We would send proposals to the seventh floor--our C-suite floor – and nothing happened."

But just as Medina began to slide into cynicism, a "guardian angel" she met at a conference helped her refresh her spirit and her tactics. "This person said, 'I can tell you're unhappy, and I can tell that you're a heretic,'" Medina recalled. "She said, 'You're going to have to get used to being uncomfortable. That feeling is the sign that you're being true to your convictions.'"

Thus, Medina realized she was going to have to bend some rules and prove to the agency that change was not only possible, but worthwhile.

Her opportunity came during the height of the Iraq war, not long after the agency's highly visible and costly failure to deliver accurate intelligence about Saddam Hussein's weapons. As the world chattered about America's clumsy inability to "connect the dots," two young analysts came to Medina with an idea: they wanted to create a Wikipedia-style website to pull together intelligence about the war. They called it "Iraqipedia," and to them it was a logical way to use technology to solve the unconnected-dot problem.

Medina loved the idea, but there was a problem: "It was illegal." The CIA prohibited that kind of inter-agency data sharing. Fortunately, her years of experience had taught her a valuable lesson about bureaucracies. "They make so many rules that it's actually impossible to enforce them," she said. "The bureaucrats forget they exist.

"I only knew the rules because I was trying to build collaborative networks, so I said, as long as we don't tell anybody, let's move forward."

Iraqipedia helped pave the way for Intellipedia, an inter-agency, collaborative website that now receives an average of 5,000 contributions a day and hosts the kind of robust debate that the WMD episode proved necessary. Director of National Intelligence John McConnell called it "Wikipedia on a classified network, with one very important difference: it's not anonymous. We want people to establish a reputation. If you're really good, we want people to know you're good …. If you're an idiot, we want that known, too."

Medina, who helped green-light Intellipedia, said that breaking rules is hardly ideal – but for the heretic trying to push unwanted change from within, sometimes it's essential. "Sometimes the only way to make an impact is to do something really outrageous," she said.

But managing heresy is an art. The organizational instinct, of course, is to reject it. Galileo used the telescope to unlock the secrets of the solar system and was branded a literal heretic for his trouble. Centuries later in the wake of World War I, General Billy Mitchell tried to convince the US Army that air power would soon be the deciding factor in warfare. He ended up demoted and court-martialed for criticizing his superiors.

So, for "heretics and the managers that love them," Medina has words of advice. She counsels those with heretical ideas to start small, build networks, and avoid alienating their colleagues. The leadership challenge for the working heretic is to keep pushing the idea without getting banished to the organizational wilderness.

Managers who want to foster useful heresies need to keep communication lines open in order to spot important ideas as they emerge. Medina made a practice of arranging what she calls "random collisions" among her staff in order to see who was thinking what. She routinely hosted no-holds-barred bull sessions. She blogged and tweeted (and still does). She kept track of everyone's birthday, sending greetings that sparked conversations.

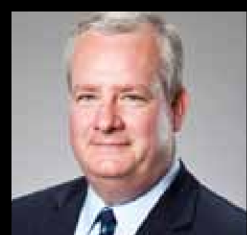
Some apparent heretics turn out to be garden variety, ego-driven complainers. But other times, Medina said, that oddball employee who keeps swimming against the tide starts attracting followers. That's often a sign that they've latched onto an idea that's truly worth pushing.

"One of the reasons that businesses and organizations and economies are failing to keep up with the world right now is that they're attached to old ways of seeing," Medina said. "Making better use of heretics is key for businesses that actually want to implement real organizational change. If there are heretics in the CIA, I guarantee you that there are heretics in your organizations. They are trying to help you. They are not part of the problem. They are the start of your solution."

CAPITALIZING ON FORCED CHANGE: THE REBIRTH OF THE PHILADELPHIA NAVY YARD

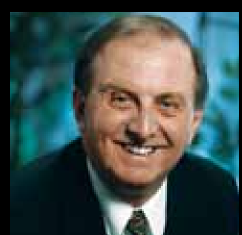
John Claypool

John Gattuso



John Grady

Terry Gillen



William Hankowsky

RoseAnn Rosenthal

Not long ago, the 1,100-acre site at the south end of Broad Street was the home of Naval officers, shipbuilders, sailors, and soldiers. Visiting the site today, you are far more likely to bump into fashion designers, technology engineers, and corporate executives. How did the Philadelphia Navy Yard transition into the diverse, high-tech, and modern site that it is today?

The story of the site begins in 1871, when the Philadelphia Navy Yard moved from the central waterfront of Philadelphia to its current location. There it expanded into the vital military facility that anchored the area for over a century. At its height, the yard employed more than 45,000 people and generated business for suppliers and manufacturers across the region. Yet by the 1980s, the Yard was becoming increasingly irrelevant for the modern Navy, and in 1991 a Congressional commission used the Base Realignment and Closure (BRAC) process to begin shutting it down. That the closure was deeply unpopular in Philadelphia was an understatement: US Senator Arlen Specter fought (unsuccessfully) to reverse the decision before the Supreme Court, and a Pennsylvania Economy League report predicted catastrophic economic loss. Despite all efforts, the Navy Yard officially closed on September 27, 1996.

While the closure marked the end of an era, a new one was about to begin. In just the past decade, the Navy Yard has experienced a renaissance of activity. Shipbuilding still remains, but the site is now home to more than 100 private businesses. A visionary master plan guides the development of the site and emphasizes sustainable and mixed-use growth. Cutting-edge research firms, headquarters for major corporations, and innovative start-ups share the historic grounds.

And, the Yard recently became the location for a major green research initiative – the Greater Philadelphia Innovation Cluster for Energy Efficient Buildings or GPIC – with the help of a $129 million Department of Energy grant. The Navy Yard even runs on its own power grid, helping to serve as a "living laboratory" for energy research.

The story of the Navy Yard speaks to the conversion of liabilities into assets, the virtue of foresight and determination, and the ability to turn unwanted change into a bright spot of urban development. Below, we hear from key officials in the Navy Yard's transformation.

INTERVIEWEES

John Claypool is the Executive Director of the Philadelphia Chapter of the American Institute of Architects. At the time of the Navy Yard closure, he served as the Executive Director of Greater Philadelphia First, an economic development and marketing agency.

John Gattuso is Liberty Property Trust's Senior Vice President and Regional Director, Urban and National Development. In his role at Liberty, Gattuso has directed the development of office buildings at the Navy Yard. He previously worked as Director of Waterfront Development for the Philadelphia Industrial Development Corporation (PIDC).

Terry Gillen is the Director of Federal Affairs at the Office of the Mayor, City of Philadelphia. Gillen worked as Deputy Com- merce Director and then as a Senior Vice President at PIDC, where she headed the team that managed the closure of the yard and planned for the future of the site.

John Grady is President of PIDC. Grady played a major role in the acquisition of 1,000 acres of land at the Navy Yard from the federal government and has been involved in the transition at the Navy Yard continuously since 1998. He assisted in the creation and implementation of the 2004 master plan and has helped to attract millions in public infrastructure and private investment.

William Hankowsky is Chair, President, and CEO of Liberty Property Trust. Prior to joining Liberty, he was President of PIDC. Developmental operations at the Navy Yard were transferred to PIDC during his tenure.

RoseAnn Rosenthal is President and CEO of Ben Franklin Technology Partners of Southeastern Pennsylvania. Rosenthal was Senior Vice President at PIDC when the base closure was announced and was instrumental in the early planning process. In 2008, Ben Franklin moved its headquarters to the Navy Yard.

So what's the big picture? The Navy Yard closure was announced in 1991. Where do we stand today?

HANKOWSKY: We're now at the 20th anniversary of the announcement of the closure. And we're at the tipping point where it's really gaining some serious momentum. Now people call up and say, 'I want to be there.' Tastykake is there. Aker [shipyard] is there. Urban Outfitters is there. Glaxo SmithKline will soon be there, and when those 1,300 jobs show up, and Urban Outfitters finishes its expansion, we'll be at about 10,000 jobs.

Twenty years ago on the date of the closure, there were 11,000 jobs. And now we're back. That's pretty impressive. But it's taken three mayors and 20 years.

GRADY: It's like you annexed a small, suburban city. It's 1,100 acres which is the size of downtown Philadelphia. We've gone through a process of integrating it back into the social and economic life of the city – as well as into the regulatory life of the city, with taxes and zoning

Navy Yard Site Plan, courtesy PIDC

and public infrastructure. And we've implemented a mixed use plan with industrial and research and office space and open space. In cities, it's very rare that you have the ability to consolidate and control a parcel like that.

ROSENTHAL: Right after the GPIC was announced, phone calls came in left and right – companies want to be here. They know they need to be here if they're in energy efficiency. The region now has a strong attractor at a national scale. We always lamented that we didn't have a federal lab. But now GPIC brings a federal lab presence here focused on deployment and commercialization of research.

GATTUSO: People now see an emerging space. It's a hot location, but ten years ago the prospects were uncertain. It was equally possible that the marketplace wouldn't accept the Navy Yard as a viable location.

GRADY: To me, the Navy Yard transition is a microcosm of the city's transition. It's transitioned from heavy manufacturing that depended on a single employer – in this case, the federal government – to something much more diverse. We still have almost 2,000 Navy employees doing some really important things, but they're joined by 7,000 to 8,000 private sector employees. There are 115 companies across a variety of sectors, including research and education and commercial activity.

Take us back to the Navy Yard's last days.

HANKOWSKY: I remember in the 70s, a coalition of Delaware, New Jersey, and Pennsylvania fought to get the Navy to bring aircraft carriers for the Ship Life Extension Program, or SLEP. That kept the place going as a military facility until the 1980s when the federal government said, 'We have too many facilities, we need to close them.' That was the BRAC process [Base Closure and Realignment Commission].

GILLEN: It was a federal entity, so the City really never paid much attention to it. The champions of it were the congresspersons and the senators. So every couple of years, the government would threaten to close it, and they would stand up and fight it. All that changed in 1991 because the base closure commission really did decide to close it. And we spent a lot of 1992 with people being in denial. They thought this was just another part of the Kabuki dance.

So we knew it was on life support – but the City fought hard to save it, right?

CLAYPOOL: From the City's point of view, keeping the Navy Yard was the best option. There was recognition that it had deficiencies. But you could also make a fairly strong case for it as it has a valuable labor force and it's well-located. And one of the assets we had – and still do – is six senators. There are very few bases or cities that can command the attention of six senators simultaneously. There was a lot of belief that we had power. But the BRAC process was set up to be isolated from politics – which made it harder.

HANKOWSKY: Arlen Specter brought a lawsuit [to stop the closure] that was ultimately unsuccessful. They announced that it would take about five years to close it. It doesn't happen overnight, and they weren't leaving in their entirety – which I think was important. About 2,000 Navy employees remained. Although it came close, it never became a ghost town.

That must've been a tough loss – the city was not far removed from the economic difficulties of the 70s and 80s.

GRADY: You had a terrible economy. If you ever read Buzz Bissinger's book, *A Prayer for the City*, huge portions are dedicated to the shipyard. It was an economic blow, of course, but it was also emotional – Philadelphia was losing all of its icons, banks were closing, the Navy was leaving, all these long-term stabilizing elements of our economy were being destabilized. So there was a certain amount of gloom and doom.

I remember Penn convening a group of economists to discuss what should be done with the Navy Yard, and one of them said, "Hey, you should just not take the property [from the government] – forget it, the economy stinks, and we have enough other problems.'

GILLEN: You have to go back to what was happening in cities in the 1990s. Not only were we shrinking and losing jobs, but cities were dying in the 90s… it wasn't Philly per se. It was that people didn't want to be in the cities.

After the closure was announced in 1991, what happened?

HANKOWSKY: It was pretty depressing.

CLAYPOOL: The City handed off day-to-day operations to PIDC.

ROSENTHAL: I remember the first meeting we had with the Navy. It was all acronyms! And then we had a tour – such a huge space, how do you even begin to think about this? Are there hot sites, pollution? What about utilities? There was a lot of effort trying to understand what this thing was that we were given to deal with – compounded by conflicting federal regulations. There wasn't a playbook to look at that said, 'this is the way you do it.'

GILLEN: The Navy wanted the City to take control of the property. The City had to start putting a plan together. Now the only reason we did a plan was because the Department of Defense (DOD) required that we do a plan, and they funded it. You can't just go and say 'transfer the deed'; there is a whole planning process that has to go along with it.

Old Main Gate

It's important to remember that in 1992 Philadelphia was incredibly close to bankruptcy; we had no money. Had the DOD not given us the money to do the plan, we could not have afforded it. But because they did, we put a terrific plan together, and it's the plan that has been followed for about 18 years.

ROSENTHAL: I was part of the planning team convened by the City after the closure was announced. One of my roles was to author the strategy for a $50 million line item appropriation secured to pay for reuse efforts. The strategy provided for funding for businesses, facilities, and workforce development. PIDC still manages what's left of this fund. The challenge was to create something with sufficient flexibility that could evolve over as much as 40 years – that was how long we thought it could take to redevelop the site.

HANKOWSKY: There was sort of a bifurcation in thinking: what do you do with a shipyard, and what do you do with a Navy base? The basic plan was, the Navy's engineering unit stays [with its 2,000 jobs], we get something going on the shipbuilding side, and we think about a reuse plan for the campus portion of the base itself.

Was there a lot of pressure to save those shipyard jobs?

GRADY: One of the focus points was transitioning this workforce. Trying to get that population into new employment at the Navy Yard or getting them trained for other jobs was a big focus for the City.

HANKOWSKY: There was a lot of controversy and a lot of public investment, but [the shipyard deal] got done. And its success has been, to my mind, massively underreported. You have the most sophisticated shipbuilding operation in America in Philadelphia. They've built 16 ocean-going ships, more than all other shipyards in America combined over the last seven or eight years.

What about the rest of the space? How clear was the vision for that?

ROSENTHAL: My input into the strategic plan from the very beginning was – let's take a look at research, let's take a look at technology, let's think about innovation. You want to have a tech park/research environment, in addition to established companies.

GILLEN: If we could put the infrastructure and environmental cleanup in place, we really felt that we could get a whole range of types of business down there, large and small.

The more we explored it, the more we realized that there was a set of skills there that we could build on. We understood that ‘wow, if we can build on this type of job and get more types of engineering-related jobs here, that’s the type of jobs we want.’ No one called it the ‘knowledge’ economy or the ‘green’ economy back then, but we understood the importance of developing professional and skilled work opportunities.

GATTUSO: From 1996 to 2001 there was not much private development. Everyone knew where it was, but nobody knew what it was. Some saw the Navy Yard as the repository for all things no one knew where to put. Left alone, you may have ended up with all sorts of things – racetrack, casinos, and incinerators.

HANKOWSKY: It was a giant site that had no neighborhood. Kind of an island. So when people talked about reusing it, there wasn’t much of a NIMBY reaction. It’s probably benefitted from that. It’s not as if a neighborhood claims it.

Tell us about the master plan that now guides it and how it came to be.

GATTUSO: In 2002, PIDC issued an RFP to redevelop about 60 acres by the front gate. It called for 600,000 square feet of suburban-style offices. Liberty Property Trust was selected, and our feeling was that you couldn’t think about the 60 acres without considering the totality -- unless we were just going to drop some buildings in the middle of a huge parking lot. So our response included a [preliminary] master plan that we created speculatively.

HANKOWSKY: Bill [Rouse, head of Liberty at the time] said, we shouldn’t do this half-heartedly. We should do it big, hire really good people, and make a statement that we should do it only if we’re going to do it right.

GATTUSO: To think about the 60 acres and not the rest, at the very least, you’re exposing yourself – what uses would locate next door? But more than that, our feeling was to think about the Navy Yard as a new section of the city. The RFP required the winning bidder to build at least 50,000 square feet speculatively. The success of such a building in an unproven sub-market was not assured. I remember Rouse said to me, ‘If no one else will lease the space, we’ll move our offices there.’

When we were selected in 2002, PIDC and Liberty together funded a comprehensive master plan. That plan has been faithfully followed to this day.

ROSENTHAL: Early on, there were two camps of thought – do you develop the Navy Yard yourself, or do you bring in developers? I thought we should bring in developers because of the scale and the need for resources beyond what we could secure from public sources. This ultimately happened once PIDC secured title to the site. Liberty was brought in. The original master plan carved out the basic template – commercial, industrial, research. This basic template didn’t change when the master plan was updated, but it was greatly improved and refined.

It sounds like the master plan was less about finding major industries to come in and replace those lost Navy jobs and more about laying the groundwork for smaller development projects.

CLAYPOOL: If you’re looking for some underlying shift in perspective, that’s where I see it. Back in the 80s and 90s, the two big issues in economic development were: can we get 300 acres for an assembly plant, or can we get 1,000,000 square feet for some industry?

But the Navy Yard master plan was no longer concerned with those kinds of big things. Instead, it was designed as an economic growth model where you could bite off chunks as the market and opportunity developed. And that’s very much a developer’s approach – develop this in bites you’re accustomed to and don’t look for some pie in the sky that requires huge public subsidies and endless negotiations. And the plan seems to be holding up.

When did you start to see that this kind of plan would actually bear fruit?

GATTUSO: The Urban Outfitters project, its overall quality, and the energy created by the 1,200 or so people who work there was a driving force in the transformation. It was a significant affirmation by a major corporate entity. But more than that, Urban Outfitters really turned people on to what the Navy Yard could be. It has given a kind of hip coolness to the Navy Yard in a way that one would not typically associate with Philadelphia.

Liberty has built three office buildings there. All are very successful – 100% occupied and some of the highest rents in the city outside maybe the Comcast Center. And when people came down and saw our first building [One Crescent Drive], they’d say, ‘That’s nice, we like it.’ Then they’d see the Urban Outfitter buildings [in renovated historic spaces], and they’d say, ‘That’s what we really want to see!’ That influenced our architecture for [our second building], Three Crescent Drive.

ROSENTHAL: The effort to bring Penn State to Philadelphia had been on the drawing board since the late 70s or early 80s. There was no concerted effort until PIDC could offer the proposition of the Navy Yard – the vision, the array of partners, the opportunity. (At this point, Ben Franklin had made a commitment to relocate at the Navy Yard). There was a full court press to bring Graham Spanier [Penn State’s former President] to see the Navy Yard and meet the partners.

But there’s more down there than Urban Outfitters, right?

GATTUSO: While the whole master plan was still in process, we brought in a deal for a separate 75,000 square foot pharmaceutical company called Apptec Laboratory Services. That was the first ground-up construction: 150 jobs, 70% at the PhD-level. More recently, when the consortium of Penn State and other institutions put its application in for the Greater Philadelphia Innovation Center and was selected to receive a $129 million federal grant to study energy efficient buildings, that brought significant attention to the Navy Yard as a place of research.

GRADY: There are lots of opportunities around the energy efficiency hub [GPIC]. The Navy has significant capacity, and we’ve started to attract some university and private industry partners to feed that economy. There are lots of opportunities for smart-grid technology. We have just started to scratch the surface.

ROSENTHAL: But for the Navy Yard, there wouldn’t be a GPIC – I’m convinced of that. It was so clear why we won – there was the convergence of the Navy Yard, a very unique site, with the variety of buildings here; a dedicated, separate grid; a growing concentration of economic development organizations; angel groups; a venture fund; university presence (Drexel, in addition to Penn State); and regional partners from both sides of the river, including Wharton SBDC and the NJ Technology Council – everyone was in the mix together. We knew each other, and we had proven experience in financing, commercialization, and investment. We adapted the inter-institutional agreements of the Nanotechnology Institute as the model for GPIC. No other competing region had a similar structure. It all added up and was very unique.

GATTUSO: You have this layering – there’s the hip and cool Urban Outfitters, there’s bustling new construction, there’s high tech research. That brings us to the end of last year, when GlaxoSmithKline’s CEO drives down to the Navy Yard, walks into Urban Outfitters, and asks for a tour. When he comes out he basically says, “We want to be here. This is exactly the kind of workforce, environment, and culture I’m looking for.’ In about 45 days we went from zero to a signed deal to build them a new facility.

So what does the immediate future look like?

GATTUSO: We’re pushing as fast as we can because success breeds success. Glaxo’s new building is under construction, we’re close to announcing a hotel to go next to it, and we’re also close to a deal with another pharmaceutical company.

GRADY: We’re expanding the connections to the street grid. We’ve opened up a new entrance on the west side at 26th Street so that there’s better circulation toward the airport and Delaware County. And another entrance will be open on Delaware Avenue. We subsidize SEPTA to run a bus from the end of the Broad Street Subway. We’re starting to look at that to see if we need something connecting directly to Center City or the airport.

And we’ve done a lot of studies on extending the Broad Street Subway for one or two stations. It’s probably a $350-400 million dollar project and that takes some longer-term thinking. It has a lot of support, and there are some things that make it attractive – you could develop denser, mixed-use properties around the stations and infuse the whole Broad Street line with more activity.

ROSENTHAL: The Navy Yard will be a regional hub that contributes to the economy in a way that I don't think people ever anticipated, especially if we accomplish the goals of GPIC and leverage that investment well.

What made it possible for the Navy Yard to achieve the level of success that it has enjoyed so far?

GILLEN: The moral of the story is it doesn't come cheap, but if you invest in infrastructure and there is good planning, it pays off. We now have a facility that can compete on an international basis. Not only will GPIC be able to compete with other facilities around the world, but the Navy Yard is a world class competitor.

HANKOWSKY: Maintaining the continuity of leadership through PIDC and to the overall commitment to a high level of quality has been very important. Through three different mayors, the same entity has had responsibility to carry the plan forward. People have talked about putting racetracks down there, casinos, steam plants, all during this 20-year period. To be able to say, 'No, it's not for that,' is important.

GRADY: Having a guiding vision and master plan has been important. PIDC has managed that consistently, and we've been able to add a business plan that focuses on stabilizing elements and guiding the public investment [e.g., in infrastructure] necessary for private investment to occur.

HANKOWSKY: The fact that it's now a KOIZ [Keystone Opportunity Investment Zone, in which businesses qualify for a number of tax breaks] is something to not lose track of.

And to be frank, it was very helpful that this all happened when we had a very engaged mayor who was politically powerful. Rendell and other politicians in the region had a lot of clout at the time, so we were able to get government resources at a scale that we probably couldn't do today. We got $50 million for a base economic conversion fund, seed money to get activity going. We got money included in the federal budget to fix the infrastructure before they gave it to us.

GILLEN: Right from the beginning we said, 'This is a 20-year plan.' And you have to give Rendell credit for giving it a 20-year plan. Most politicians do 4-year plans, right? Or 8-year plans. They don't do 20-year plans. So I would say that the Navy Yard is THE example of why good planning leads to good economic development. If we could do this across the board in Philly, we will have great economic development.

It sounds to us like the Navy Yard transition mirrors the bigger trend in the American economy: cities can't depend on attracting industries that single-handedly employ thousands. They need to foster diversity and interplay between sectors.

CLAYPOOL: In a way we're getting back to what cities have always fundamentally been about, and where they were two or three hundred years ago. We did have this industrial revolution, where these massive industries grew in cities in the 18th and early 19th centuries, but we're at the tail end of that cycle. Now we're back talking about the essence of a city that Lewis Mumford described -- the exchange of ideas and energy.

GRADY: Fifty years ago, Philadelphia was a manufacturing powerhouse. We had 400,000 manufacturing jobs. Today we have 30,000. What the city's been able to do is manage this transition. Twenty percent of our economy is still industrial, we've got maybe 40% of our economy in education and medicine, and we still have an insurance and financial services sector – we have a much broader base that can withstand a lot of economic shocks.

That's a transition that a lot of other industrial cities weren't able to make. Pittsburgh, Baltimore, Cleveland, Detroit – each one has lost over 50% of its population, and they struggle with how to sustain their services and their quality of life. Philadelphia has retained that status of a desirable place to live. And the Navy Yard is like a laboratory for that kind of transition. I think it tells the story of what Philadelphia has gone through.

And part of what we're seeing is that the Navy Yard represents both the old and the new – it's got the kind of big industry and manufacturing that once dominated Philadelphia and the high-tech and creative businesses that many see as the future.

GRADY: The Brookings Institute recently released a clean-tech economy report. And Bruce Katz, in his speech about it, put a lot of emphasis on Mayor Nutter's sustainability efforts and how Philadelphia and the Navy Yard are building on that. Philadelphia isn't making hats anymore – it's a leader in this new economy.

But don't forget we still have a lot of people down there blowing rivets, and we have people making ships and baking Tastykakes. We're not going to make mass-produced, low-value stuff. But what's always distinguished Philadelphia as a manufacturing center is that it's been diverse, with a lot of high- value, niche manufacturing – unlike Pittsburgh or Detroit that made a lot of a single kind of thing.

GATTUSO: I've always seen the Navy Yard not as a place to keep jobs in the city but rather a place to bring people to the city. What we're trying to do is create a place that's so compelling that people want to be there. It's very significant that the Glaxo deal had no public subsidy. They're not part of the KOIZ. They're there because they want to be there.

That's something that people in Philadelphia need to understand. You don't have to buy businesses. Attracting them is much more sustainable than giving somebody $10 million to stay in the city. What we need to do is create an environment that's so compelling that businesses and city leaders will cherish it, value it, and seek to expand it, not limit it.

THE TRANSFORMATIVE POSSIBILITIES OF NONPROFIT COLLABORATION

It may seem counterintuitive, but economic slow-downs are known to spark entrepreneurial ventures. A recent Kauffman Foundation study showed that more than half the companies on the 2009 Fortune 500 list were launched during a recession or bear market, along with nearly half the firms on the 2008 Inc. list of America's fastest-growing companies.

Nonprofits manifest similar urges toward reinvention when times are tough, and the tumult of the past decade has accelerated their cooperative and collaborative efforts. Recent trends underlying accelerated collaboration in the nonprofit sector include:

- **Tremendous growth**. Between 2000 and 2008, the total number of nonprofits in the five counties of southeastern Pennsylvania grew by 36% (from 11,000 to 15,000). At the national level, nonprofits also experienced similar growth across every subsector.
- Squeezed balance sheets. The Nonprofit Finance Fund's (NFF) 2011 State of the Sector Survey reported that roughly one-third of responding nonprofits had a deficit and 10% had "no cash"; 40% of respondents believed 2011 would be harder than 2010. The Economy League of Greater Philadelphia reported similar findings for southeastern Pennsylvania.
- Greater demand for services. With the nation struggling with high unemployment, home foreclosures, and other tough economic conditions, 41% of NFF's survey respondents said demand for their services increased significantly in 2010, a trend evident since 2008.
- Contracting budgets. Most states are dramatically cutting programs in order to cover budget gaps. The Center for Budget and Policy Priorities reported that despite stronger-than-expected state revenues for 2011, 42 states and the District of Columbia had to plug $103 billion in budget gaps for fiscal year 2012.
- Sector contraction. The IRS's recent decision to revoke the tax exempt status of approximately 275,000 nonprofits for failing to file legally required annual reports will undoubtedly result in many nonprofits merging together or even closing their doors.

The impact of these changes cannot be understated. In southeastern Pennsylvania alone, if the federal government accorded the nonprofit sector the same status it does other economic sectors (e.g., manufacturing), it would qualify as the region's third largest, with 242,000 employees earning more than $11 billion in wages.

INNOVATING THROUGH COLLABORATION

The NFF 2010 State of the Section Survey provides a valuable snapshot of how nonprofits have adjusted to these external pressures. Tellingly, a growing number reported partnering with another organization to improve or increase services offered – 47% did so in 2010, and 51% were expecting to do so in 2011.

Similarly, 21% expect they will be collaborating with other nonprofits on reducing expenses in 2011, up from 14% in 2010.

> *"Saving money can be a result of strategic alliances and corporate integrations, but it is rarely the sole or even the primary reason... most often any 'savings' are plowed back into higher impact programs and services."*

Collaboration between nonprofits can take many forms, from coordinated programming to full-fledged mergers. No one model is right for all nonprofits, but experts agree that successful collaborations are driven by the organizations' missions rather than by defensive reactions to external pressures. "Wise organizations choose strategic restructuring to further their missions," concluded La Piana Consulting, a firm specializing in nonprofit collaborations. "Saving money can be a result of strategic alliances and corporate integrations, but it is rarely the sole or even the primary reason... most often any 'savings' are plowed back into higher impact programs and services."

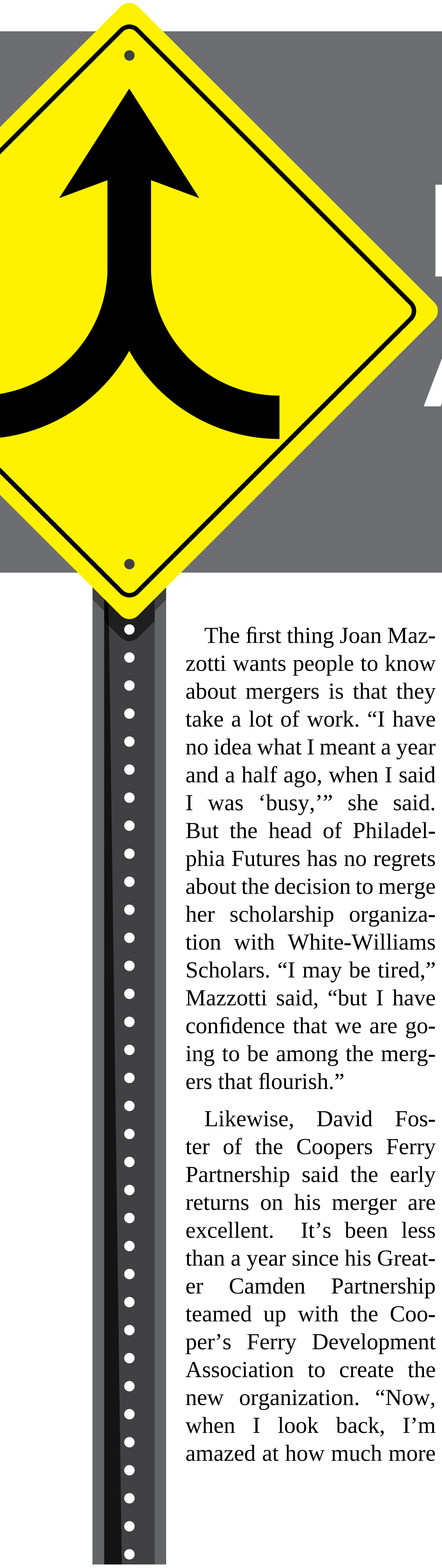
And as nonprofit collaborations grow in number, researchers have begun to mine the data and arrive at some interesting observations. These include:

- Nonprofit collaboration does not necessarily mean mergers. La Piana conducted an analysis of the applicants to the Lodestar Foundation's newly-created Collaboration Prize and found that of the 175 highest-ranking applications, 25% were actual mergers; 50% involved joint programming, administrative consolidation, or some combination of both.
- No one subsector dominates nonprofit collaboration. La Piana's analysis also found that applicants represented every subsector of the nonprofit world.
- However, certain subsectors are more favorable to merger activity than others. In a study of nonprofit merger filings made between 1996 and 2006 in four states (MA, FL, AZ, and NC), The Bridgespan Group was able to identify market characteristics of subsectors favorable to nonprofit mergers. Merger-friendly subsectors tend to be large areas of concern served by many small organizations in which funding sources are impersonal (i.e., government as opposed to individual donations) and which face major barriers to "organic growth," such as government regulations. For example, the study cited "child and family services" as an example of a subsector humming with merger activity.
- Nonprofits as a group are no more likely to merge than their for-profit counterparts; the exception is large organizations. Bridgespan's study found that the "cumulative merger rate" for nonprofits was essentially the same as that of for-profits: 1.5% versus 1.7%. The vast majority of mergers – nonprofit and for-profit – are by organizations and companies small in size. However, the merger rate of large nonprofits (i.e., budgets of at least $50 million) is one-tenth that of large for-profits. Bridgespan attributes this disparity to the difference in incentives. For-profit mergers are driven by financial incentives, particularly payouts to individual parties and fees paid to third party "matchmakers." Nonprofit mergers, in the best of circumstances, are strategic decisions driven by organizational missions; theoretically, it is the community as a whole, not individual parties, who benefit from nonprofit mergers.

Our understanding of nonprofit collaboration surely will expand in the coming years as organizations continue to explore new ways of operating in persistently difficult economic conditions with increasing demand for their services. The entrance of new intermediaries such as the Lodestar Foundation's Collaboration Prize and Boston's Catalyst Fund is likely to help step up the pace of nonprofit collaboration.

Furthermore, research initiatives such as the AIM Alliance, a Lodestar-supported project involving universities in Arizona, Indiana and Michigan, will offer up new insight into nonprofit collaboration and identify effective models and best practices relevant to our own region's nonprofits.

In the not-too-distant future, we may look back on this period and realize it was a time of entrepreneurial innovation among nonprofits as they collaborate in new and transformative ways.



MERGERS IN ACTION:

ADVICE FROM THE TRENCHES

Joan Mazzotti

The first thing Joan Mazzotti wants people to know about mergers is that they take a lot of work. "I have no idea what I meant a year and a half ago, when I said I was 'busy,'" she said. But the head of Philadelphia Futures has no regrets about the decision to merge her scholarship organization with White-Williams Scholars. "I may be tired," Mazzotti said, "but I have confidence that we are going to be among the mergers that flourish."

Likewise, David Foster of the Coopers Ferry Partnership said the early returns on his merger are excellent. It's been less than a year since his Greater Camden Partnership teamed up with the Cooper's Ferry Development Association to create the new organization. "Now, when I look back, I'm amazed at how much more we're able to do," said Foster.

Both leaders are still in the early stages of transformation. But both are optimistic that they've improved their organizations' long-term prospects. They feel they've reduced redundancy in their respective fields and are better positioned to serve their communities and to compete for philanthropic support.

They had words of advice for organizations considering merging:

- **Be sure you truly share a mission.** Staff, board members, and supporters at every level must trust that their organizations can merge without sacrificing their most important priorities. Inevitably, people will have to be convinced to sacrifice some of the organizational power or influence they've accrued, and an appeal to the larger mission is the best way. "If you're putting mission above individual, that's when you're on the path," said Foster.
- **Be prepared for covert action.** The merger process requires lots of deep-cover conversations that have to stay under wraps until the time is right. "You have to be careful," said Mazzotti. "If it doesn't go through, you don't want people to know that it had been discussed." People's feelings can be hurt when they discover that executives and board members have spent months talking about major changes, so careful communications strategies – both internal and external – are a must at every stage.
- **Be ready for hard conversations about leadership.** When two organizations join, boards and executive leadership have to be reshaped. Leaders must decide whether and how to share power, and they cannot allow themselves to get bogged down in ego-driven turf battles. Likewise, complex legal issues need to be forthrightly addressed, and both organizations have to be prepared to face scrutiny.
- **Be ready to spend.** Merging isn't free. There are employees to deal with, legal counsel to be hired, and countless technical and transition details to be managed even as the day-to-day work proceeds apace. "What you really want is for foundation and corporate funders to be giving you funding to support the merger process itself – in addition to what they give you for operations," said Mazzotti.

David Foster

For both Philadelphia Futures and the Coopers Ferry Partnership, the benefits of their respective mergers are just emerging. Philadelphia Futures' two formerly independent organizations are still blending their operations, but Mazzotti said the new nonprofit is already able to serve more students more easily. She hasn't seen any "softening" of big-donor support, but she cautions that it's not yet clear if the merger will have any impact on individual giving – a critical area of support.

Foster also feels that his new partnership is more efficient and effective and said that corporate and philanthropic donors recognize the "value added" by the merger and have stepped up their giving in response. "We didn't lose any funders – in fact, we increased in some cases," he said. But he notes that the two organizations had a long history of professional and social connections that made it relatively easy to establish the trust needed to smooth the transition.

And both leaders say the merger process has been eye-opening for everyone involved. Foster is now carefully watching the progress of a proposed merger of Rowan and Rutgers Universities: "a game-changer for the region, not just Camden." And Mazzotti said that since her merger, her own board has come to her with "at least three more ideas" for similar partnerships. "I think we're going to have a new executive director take those on," she said with a laugh.

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