

The Birth of a Fourth Sector

Richard J. Cohen and Tine Hansen-Turton 23

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Throughout the nation there is a growing movement of larger nonprofit organizations leveraging their high-performance and efficient back office and management services to assist the government, private business and nonprofit sectors. These management services first and foremost help ensure the proliferation of high performing, efficient and effective nonprofit organizations. At the same time, these business look-a-like functions help generate revenue for the organizations that provide them, revenue that is reinvested into the organization's programs and services thus helping to support and expand their missions.

One factor that differentiates this group of nonprofit agencies from traditional nonprofits is a business model that blends both management services and direct services. These organizations have developed sophisticated financial, human resource, research and information technology capabilities that make them well-functioning organizations, attractive to funders, and that position them to also support other agencies. *Taken as a whole this new group of business-function-oriented nonprofits is a virtual management services organization; we call it the **Fourth Sector**. This Fourth Sector is one*

that is capable of connecting, facilitating and supporting government, business and the nonprofit sectors through strategic and business management.

What we have termed the Fourth Sector usually consists of nonprofit organizations that generally offer direct services to the public but also have sophisticated financial, human resource, and information technology capabilities that allow them to offer management support to nonprofit, for-profit, and government programs and agencies at high quality and low cost. The roots of this type of management services organization are normally in the nonprofit sector (non-governmental organizations). However, the principles that guide them cut across business, nonprofit, and government organizations. These principles include:

- Relationships matter
- Vision and mission are important but also must sustain the goals of building business or attaining funding
- Money can be leveraged to build new businesses, programs and services
- Services can and should be connected
- Strong business infrastructure serves to improve performance in all sectors
- Continual organizational assessment and self correction is vital to success (and "dancing in the end zone" is not)
- Data, research and information technology can serve

as the basis for service and program integration

Fourth Sector organizations are usually known as the “go to” organizations that get the work done in their geographies, fields or sectors. The missions of these agencies are deliberately broad, allowing the sector to be entrepreneurial and opportunistic. Some of the CEOs who run the Fourth Sector will argue that while a focused mission is nice, mission does not create money or equity, the supporting capital of the enterprise. Equity, however, creates the resources that drive practical responses to mission-driven need and supports entrepreneurial nonprofit management toward service expansion and delivery on mission.

The Fourth Sector has grown and prospered due to the will and vision of its practitioner style leadership to think and act more like business sector executives. As a result, the Fourth Sector acts like the business sector in many ways. It prides itself on following sound business practices, such as maintaining high return on investment and always generating excess revenue over expenses (nonprofit jargon for profit). It relies on managing quality programs and services. As with any business, it understands that only happy and satisfied customers return; in the nonprofit world, customers are the funders – government, corporation and private – that supply the revenue stream. Thus, the Fourth Sector has often invested in both evaluation and IT infrastructure to monitor the impact and outcomes of the programs and

services it manages. The Fourth Sector also realizes that a highly-skilled workforce is key to a healthy community; many therefore offer a wide variety of educational and professional development opportunities to its own staff, as well as to other specialized professionals in its service region. Finally, communications both internally and externally play a significant role in the success of the Fourth Sector.

The Philadelphia region is home to several Fourth Sector organizations in addition to the organization discussed in the case-study below. Their business models vary, so we encourage readers to explore beyond the model discussed below to learn more about all the Fourth Sector organizations and how they can be a resource to the local nonprofit, foundation and government community.

Public Health Management Corporation: A Case Study

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Public Health Management Corporation (PHMC) is a 501(c) (3) nonprofit corporation founded in 1972 to address problems in the organization and delivery of health and social services. It was created through a U.S. Department of Health and Human Services Health Services Delivery System demonstration grant with the

purpose of developing and testing new forms of state and local organizations designed to consolidate the planning and management of community-wide health services delivery systems. The intent of the demonstration grant was not for agencies to provide direct services, but to partner with local government. Thus, when PHMC began it was believed that it could survive without providing direct services. That has changed over the years. PHMC looks very different today, 37 years later, though its core mission of serving the community's health needs remains constant. PHMC identifies its role as a nonprofit public health institute that builds healthier communities through partnerships with government, foundations, businesses and community-based organizations. It fulfills its mission to improve the health of the community by providing outreach, health promotion, education, research, planning, technical assistance, and direct services. More important, it is a facilitator, developer, intermediary, manager, advocate and innovator in the field of public health. With over 1400 employees, 70 sites and 250 programs spanning behavioral health / recovery, community-based and culturally-based health promotion, smoking cessation, obesity prevention, early intervention, HIV/AIDS, violence intervention, homeless health services, and primary care, policy and association management, and 10 affiliates with programs throughout Pennsylvania, one of which is nationwide, PHMC has become one of the largest public health organizations in the nation serving more than 87,000 clients annually.

Despite the changes, PHMC's initial focus of being a resource to the public sector has shaped its direction and had profound impact on its current structure. In order to support its extensive network of services and programs, PHMC has developed a comprehensive infrastructure that allows program staff to focus on clients while administrative staff concentrate on the ancillary work that is needed to track, report, invoice, fund, staff, manage, communicate, and generally support the service delivery network. Since 1989, PHMC has included a process of affiliation in which another nonprofit that would benefit from PHMC's management expertise, administrative capacities and strategic approach can become a subsidiary organization while maintaining its separate board and 501(c)3 nonprofit status. This strong infrastructure has allowed PHMC to act as the incubator of a family of now 10 affiliated agencies that, along with PHMC's own programs and services, mutually benefit from efficiencies of scale that allow them collectively to provide better services more cost-efficiently and with a combined overhead rate of under 7%, more than 8 points lower than the national average of over 15% among nonprofits.

Organizations approach PHMC to affiliate or are led to PHMC by community leaders with an interest in the agency's success; often they are struggling to survive when they come to PHMC. Affiliation occurs after a period of mutual due diligence, and once finalized PHMC

provides business management and strategic guidance as well as the array of back office services noted above.

Within 24 months of affiliation, the agencies have become sustainable with budget growth, program expansion and the related staffing increases. For example, one agency that joined PHMC 9 years ago has expanded 8-fold since becoming an affiliate. What's more, the affiliate's employees gain a broader colleague base and opportunities for professional growth.

PHMC, like other Fourth Sector organizations, understands that it is a business and so must be both bottom line and results oriented. PHMC invested 30 years ago in the establishment of a first class research and evaluation arm, staffed with PhD researchers and other professionals, which has the capability to conduct both academic evaluation and research. PHMC also invested in its own IT infrastructure to support the data collection needs of all its programs, services and affiliates, as well as professional marketing, PR and internal communications and ongoing training. It is even with these capabilities that, the organization manages \$165+ million budget with a combined an administrative cost of under 7%.

Also like other Fourth Sector organizations, PHMC knows the importance of building and maintaining relationships as key to its success. Through the years, PHMC has demonstrated a capacity to foster collaborations and connections among public, private and nonprofit stakeholders. PHMC's role as a participant in, and

convener of, effective partnerships and collaborations has helped to keep many organizations strong, focused and serving the needs of the region. PHMC's Board of Directors itself is unique as it includes individuals who together offer a broad perspective on public health in its community by filling designated and at-large roles representing health systems, employers, health insurers, government, labor and foundations. Public Health Management Corporation thus is both a catalyst and a model of stakeholders coming together across the key sectors toward the development of solutions to complex health and human service issues.

Conclusion

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More descriptive research is needed to fully understand all the complexities of these Fourth Sector organizations and to fully maximize the potential of this under-tapped sector. In a time of economic challenges, more than ever there is a need for this Fourth Sector which can step in and support the nonprofit, public and business environment.

The downward spiraling economy has already negatively impacted the service driven nonprofit community. The nonprofit sector is raising fewer dollars and many organizations will be unable to sustain their core operations. These organizations should think about

effective ways to affiliate with the Fourth Sector, while they are still able to do so. However, the service-driven nonprofit sector is not the only group that can benefit from the Fourth Sector. Governments are facing cuts and should look at the Fourth Sector as a potential partner to gain efficiencies by outsourcing staff and programs where feasible. The same is true for the private sector. The efficiency and effectiveness by which the Fourth Sector operates make it an ideal partner in tough times ... and quite simply a smart way to be doing business when the economy rebounds.

While the renewed efforts of nonprofit leaders to promote social change through "theories" will continue to put pressure on the existing mission-driven nonprofit service industry to effect a greater social impact, this Fourth Sector can offer the business context in which that is possible as it connects, facilitates and supports the government, business and nonprofit sectors through both strategic and business management.

There may be an attempt from some to criticize Fourth Sector organizations as being scattered, unclear, unfocused, and non-mission driven. There will also be an attempt to suggest that these organizations were "lucky" and grew organically from being pulled in multiple directions. They also will attract criticism from those unwilling to be accountable for constituencies and results. Their business orientation and practices will be questioned. Regardless, it is critical to understand that

fundamentally these organizations have the capability and credibility to serve all three sectors in the U.S. often better, less expensively, more efficiently and with positive outcomes.

In conclusion, the Fourth Sector is in many respects an example of what our new government leadership suggests in its plan to create a mechanism to develop the capacity and effectiveness of the nonprofit sector. Our leaders need to look no further than these management services organizations. In this win-win model everyone comes out stronger, most critically the communities, families and individuals who most need the services – services that are at risk without such a model to keep them strong – in these economically challenging times.

The Fourth Sector presents a unique opportunity to step right into supporting the Obama Administration's stated goals and must be viewed regionally, state-wide and nationally as a resource, a strategic management partner, and an operations player.

[Richard J. Cohen](#) is President & Chief Executive Officer of Public Health Management Corporation. View his bio on the PSIJ website.

[Tine Hansen-Turton](#) is Executive Director of National Nursing Centers Consortium and Convenient Care Association, and Vice President of Health Care Access & Policy at Public Health Management Corporation.

View her bio on the PSIJ website.