

# The Ins and Outs: INnovating through OUTsourcing

Richard J. Cohen 23 September 2011

The old saw goes: "The closest exit may be behind you." If we apply this to thinking through solutions, we need to be conscious of all directions, including looking back. Sometimes in seeking the best way to innovate we can learn from the effective models that came before and adapt them to move us ahead.

## The Issue

Public Health Management Corporation (PHMC) was created from the then ground-breaking notion that nonprofit organizations could partner with government to help them work more efficiently and less expensively. That was nearly 40 years ago; we came on the scene in 1972, then as Philadelphia Health Management Corporation. From that moment until about ten years ago, our model experienced growth in Philadelphia. City, county, state and federal government entities invited us and other nonprofit organizations to collaborate on myriad programs over time. For example, the City of Philadelphia asked PHMC to apply on its behalf to a collaborative of foundations, for the management of Philadelphia's

Healthcare for the Homeless program that began January 1, 1985. We did so with the City's support, brought in the funds, managed their subcontracting, and stayed with it as the program morphed to a government-funded agency. As additional funding sources became available PHMC accessed them, and we continue to receive and manage the Healthcare for the Homeless funds on behalf of government today, more than a quarter-century later.

As we consistently showed that this approach made the delivery of government services more rapid and flexible, with dramatically lower overhead (our combined administrative rate across all our programs and affiliates hovers under 7%), Philadelphia became a national leader. About ten to 15 years ago, what we had been perfecting for a quarter century caught fire across the country.

Yet, at the same time, government in our region began to question the approach. Locally, these partnerships became much more difficult to structure and maintain. Some began to question the ethics of fixed partnerships, in favor of more costly ongoing renegotiation, and we began to see increased pressures on government jobs.

Fast forward to 2011. Government hunkers down to try holding on even more fiercely to public jobs, with less funding available. It costs more and more for government to do the same work that had been achieved cooperatively, let alone to develop new responses that help address emerging issues. What can help meet the

community's rising needs with today's severe economic constraints?

## The Solution

Imagine developing a government-sponsored health service that will require a new director and a range of other staffing, real estate to house these people, access to and experience with a broad range of other health and human service programs across the region, and an infrastructure of community-based operations. How long might it take government to put all this together on its own, and how much of the initial budget would get eaten up in doing so? On the other hand, what if there is a nonprofit partner that already collaborates on a range of such programs with government, has the infrastructure and real estate in place, and can put qualified people on the project immediately? Despite the questions that began to arise a decade or more in the past, doesn't it make sense to build further on this existing, proven relationship by bringing the new program under its umbrella?

Think of it this way. If you have two televisions in your home, will you use a different content carrier for each, just to avoid the appearance of excess loyalty to one over the other (perhaps you are friends with employees from each and you don't want to alienate anyone), or will you choose the single carrier that can give you the best combination of programming you seek at the most affordable rate?

Now consider a government program funded annually from a state budget allocation. Developed and planned as a multi-year program, it sees the state funding disappear after the first year, and the government is unable to find other sources to keep it going. Consider what it would cost government simply to end the program, from exiting real estate agreements to providing employee severance. But with the program outsourced to a single nonprofit partner, that real estate and those employees are not government's concern. Government remains free and clear of those costs. And with an ongoing partnership in place this occurs with still greater efficiency and consistency than when government has a fractured array of contracts with agencies rather than strong, long-standing relationships.

Ego-free expert services. That sounds ominously like a slogan, but it's really just a simple answer to the problem of helping government resources do more and keeping government programs more flexible. It's about putting aside a focus on appearances with the understanding that maintaining a high standard of ethics does not preclude constructive relationships, but instead makes government a responsible custodian of the public trust and pocketbook.

## **The New Approach**

If we first pioneered this model four decades ago, what's so innovative about it now? With the increasing

complexity of government challenges and the parallel constraints on spending, the identification of the ongoing partner with which to house and manage programs—rather than the time and expense of sourcing and launching a never-ending series of new transactions—shifts the outsourcing model to answer today's requirements.

It's now—after 40 years of testing relationships and establishing where the expertise lies—that government is best positioned to know exactly where to place the public's trust for such ongoing contracts.

Another emerging element also makes this the right time to identify such partners to government. We see dramatic growth in mergers and acquisitions among nonprofits, with large organizations attracting smaller nonprofits that seek fiscal strength and expert management capabilities. Thus some of the most effective and responsible nonprofits for providing outsourced services not only are becoming more easily identified through this sector consolidation, but also are expanding to further achieve the economies of scale that will make them still more valuable as government partners. Governments should look first at these entities when seeking their long-term management partners.

## **The Impact**

Innovating through outsourcing to ongoing partners,

particularly those with proven strength as nonprofit sector leaders in a period of mergers and acquisitions, will positively impact the delivery of government programs. This is especially true as government operates under tighter constraints, faces public needs that demand more rapid response, and must adjust to funding shifts on a dime. A model that gets programs on line faster and responsibly places the burden outside of government—for hiring and housing staff, building infrastructure, managing services and even dismantling at the program's end—better serves the needs of the community.

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