Understanding Sustainable Entrepreneurship in the Fourth Sector Through Integrated Balances: The Case of Uruguay

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Abstract The main purpose of this chapter is to analyse the Fourth Sector in the light of Integrated Balance (IB). From our standpoint, IB constitutes an antecedent of a future development of the fourth sector, a driving force that will define its evolution in the immediate future. IB allows a better understanding about how profits and real cost of production coexist and whether or not it is worth for traditional (pro-profit) companies to report IB. We explore how some key firms' characteristics are associated with the productive structure of companies, which have not been sufficiently studied in the literature and help to understand which firms are more likely to report IB. Most of the companies examined in the current literature on IB tend to be large/multinational companies from wealthy economies in prosperous sectors of activity, which are ranked in international sustainable indexes (DowJones and similar). Our model incorporates also domestic ones of medium and small size in all sectors of activity, both public and private, with different levels of experience and seniority in Uruguay. Our results suggest that the public nature and the international character of a company are key not only to increase firms' odds to report integrated balances but also the quality and quantity of these reports.

Keywords Fourth Sector · Sustainability · Entrepreneurship · Integrated balances · Uruguay

1 Introduction

The role of entrepreneurship in favouring sustainability has gained attention over the last decades. The rapid growth of the so-called *fourth sector*, which "is basically made up to enterprises in search for leveraging profit and purpose in order to solve

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the world's most urgent social and environmental problems" (Fourthsector.org 2020), is a key issue in entrepreneurship debates nowadays.

Until recently, the only companies that were considered capable of helping sustainability were the so-called "social economy", NGOs included, and the key actors in sustainability were social entrepreneurs (Etxezarreta et al. 2014). Yet, for-profit companies have started to incorporate some of the key paradigms and processes of sustainable firms, which open new windows of opportunity for the integration of traditional firms into sustainable ones, thereby expanding and enriching the fourth sector.

In our view, of the various possible ways to measure how for-profit companies are being incorporated into the new logic of the fourth sector, the ones called "Integrated Reports" (IR)or "Triple Bottom-line (TBL)[1]" are the most useful and reliable so far. This is so because it points to one of the key challenges for traditional companies which seek to be part of the fourth sector, namely how to integrate ethics and business in a way that is financially worthy for the company.

IB introduces a "new business framework" that deliberately seeks to incorporate social and environmental costs in the financial balance. It seeks to measure the level of commitment of each company with the great challenges humanity is facing through the trinomial "profits-people-planet".

According to this definition, new ventures look beyond financial results assessed through costs and gains by including social challenges (labour exploitation, gender discrimination, child labour) or environmental risks (the deterioration of the ozone layer, global warming, the loss of biodiversity, etc.) to measure the total and real cost of any company to be able to obtain profits.

This idea of the *Total Cost* or *Real Cost of production* derives from the conviction that the costs of financial accounting do not really measure total production costs. They only account for the cost per unit of production and the sale price to obtain profits. However, this is a partial and distorted image of the true costs of production that does not take into account its most apparent externalities.

When analysing the effects of production on the various stakeholders of an organisation (employees, suppliers, consumers, shareholders, and public authorities) and on the environment where that production takes place (water quality, air quality, the health of the surrounding population, and diversity of fauna and flora) is when there is a better approximation to the real cost of production.

This is where the apparently conflicting and irreconcilable meanings of business and ethics seem to converge. The IB appears as a concrete and measurable way to check out the commitment of companies with their immediate social and natural environment, beyond commercial slogan and marketing strategies. However, this approach opened a fruitful debate between free-market advocates and market

[1]It was the already famous business consultant John Elkington (1998, 1999) who coined the concept of Triple Bottom Line in the nineties with the purpose of managing an organisation in ways that not only generate profits but also improve the lives of people and the planet.

moralists about the potential and limitations of the market economy when incorporating moral restrictions on the free action of companies.

In what follows, we try to shed some light on this debate, confronting these theories and extracting their key conclusions on the relevance of IB with a view about how they fit into the debate on the development and consolidation of the fourth sector.

Subsequently, we have gathered data considering not only large/multinational companies in prosperous sectors of activity, but also domestic ones, of medium and small size, in all sectors of activity, both public and private, with different levels of experience and seniority in Uruguay.

The goal is to analyse empirically the probability for a company to report IB by means of measuring the statistical effects of key firms' characteristics associated with its productive structure. By doing this, we try to understand which firms are more likely to report IB, assuming in this way the profit-real cost of production challenge, and enriching our knowledge on how IB and the fourth sector operate.

Although all companies that report IB are not necessarily part of the fourth sector and vice versa, both share a common set of values and proposals aimed at finding a balance of profit and real costs of production. Both seek to transform entrepreneurship and the way to do business by means of inclusion and sustainability.

2 Can Profits and "*Real Costs of Production*" Coexist?

One crucial issue in this debate is whether or not the transition from a traditional firm to another in the fourth sector is profitable and can be maintained over time. The Friedman-Freeman debate exemplifies two-opposing points of view on how profit expectations and real cost of production operates.

For Friedman (1962, 1970) the unique responsibility of business is to maximise profits by minimising costs. Any additional cost that undermines profit maximisation is rejected because it violates the contractual relationship with investors and other stakeholders.

This occurs because companies reported to behave responsibly experience a significant stock price increase, whereas firms that behave irresponsibly face a significant decrease, which influences returns and the scale of profits (Flammer 2013).

IB and other social responsibility schemes introduce over-cost of production that increases stock prices and by extension negatively affect productivity and competitiveness that results in decreasing returns. This is hardly acceptable for a company that wants to increase its profits.

Why then do some companies report IB? The answer has little to do with moral of responsible behaviour, but rather with exploring new channels of marketing and advertising to gain new (responsible) consumers and markets and improving firm's corporate image. It is just a strategy of differentiation.

Anyway, this "differentiation effect" could be a short-term resource, rather ineffective in the medium term. As these new sustainable and responsible consumers and markets spread and consolidate the positive reaction to eco-friendly initiatives may decrease over time.

Flammer (2015) examines eco-friendly and eco-harmful events in the U.S. in the period 1980–2009 and concludes that the transition to sustainable models in the fourth sector is an "environment-as-a-resource" with decreasing marginal returns and insurance-like features. Investors' negative reaction to eco-harmful behaviour increases, while the positive consequences associated with it decrease over time.

As more companies become eco-friendly, the differentiation effects decrease and governments, consumers, and investors may not find additional incentives to support taxes reduction, higher prices, or more responsible investment in the belief that sustainable initiatives should be the expected behaviour of any company and do not need to be rewarded.

Profits and real cost of production operate in different and contradictory logics, so that responsible behaviour that favours sustainability, in fact, damages the financial viability of the company. IB and other sustainable schemes are simply a marketing campaign to improve the corporate image of companies.

The rhetoric of the IB or similar is misleading, and in fact, it can provide a smokescreen behind which companies can avoid credible reports and can also avoid really effective social and environmental performance. It is what Norman and MacDonald (2004) call a "Good old-fashioned Single Bottom Line plus Vague Commitments to Social and Environmental Concerns".

Proposition 1: "*The trade-off effect*". There is a trade-off effect between profits and real costs of production, so that those companies reporting IB are more likely to fail. Those companies reporting IB do so for rational economic calculation that uses IB as marketing and advertising to enhance their corporate image. Reporting IB is only feasible for companies that can afford it. Small and medium firms that cannot use IB to enhance image will not have the incentives for reporting so.

2.1 Stakeholder Theory

Although this view is quite widespread in business circles nowadays, there are also other views that oppose this trade-off explanation of how corporate social and environmental responsibility affect firms' financial results. While there are good reasons to believe that the pursuit of self-interest can bring about positive economic consequences, there are also good reasons to state that the social consequences of self-interest can be perverse.

Stakeholder Theory (ST) emerges to provide an ethic component to traditional (pro-profit) business models. It provides details about who should be responsible for a company and the conditions under which the productive activities of that company put certain interests and rights at risk.

This is Freeman's point of view (1984, 2008), which opposes to Friedman's thesis about how damaging can be for a company to embark on IB or similar sustainability models. Freeman claims that companies should consider not only the interest of their shareholders but also the interest of a broader group that includes everyone affected by the action of a company.

For Freeman (2008), there are four main ideas to consolidate a broad perspective in a new Stakeholder Theory, or in his own words, to get stakeholder theory off the ground: (1) the separation thesis; (2) the integrative thesis; (3) the responsibility principle; and (4) the open question argument.

The "Separation Thesis" comes to say that it is not functional to separate questions of business and ethics anymore. On the contrary, it is time to put forward an "Integrative Thesis" that brings both together. The "Integrative Thesis" is built upon the idea that we would have more useful ethics, if we would incorporate into our normative ideas the need to understand how to create value and trade by other means.

The "Responsibility Principle" comes to say that ethics is not a normative issue, but a useful instrument to develop a certain framework of responsibility that helps us justify our lives to ourselves and others. The last idea refers to a set of questions on who is benefited and who is harmed by my actions or the actions of my company.

It is precisely the capacity of any firm to consider the preferences of any group affecting or being affected by a company what will ultimately improve a firm's ability to create value, strengthen their corporate–community relationship, and gain competitive advantages.

Several studies have shown that the effects of the decreasing return on becoming sustainable can be compensated if a company can offer a product that convinces a significant group of "responsible consumers" willing to pay the real cost of the product. Not only consumers, governments, and investors may also adopt a "conscious behaviour" by giving up raising taxes for the fourth sector or to invest in sustainable firms (investors) that can offset costs of production.

Durand et al. (2019) replicate Hawn et al.'s analysis, redefining the comparison they set and comparing across observationally equivalent firms. They conclude that the inclusion of a firm in a Sustainability Index (Dow John Sustainable Index) does not have a significant impact on stock price and trading volumes.

Depending on a company's priorities, this inclusion could bring worthwhile returns in the firm's visibility to key stakeholders, mainly professional investors who pay more and more attention to these firms over time. This leads to an increase in the percentage of shares held by long-term investors.

Ioannou and Serafeim (2015) find a positive shift in the way analysts respond to sustainable ratings over a 15-year period in the USA. They posit that analysts issued more pessimistic recommendations for firms with high sustainable ratings in the early 1990s than in the 2000s. With the pass of time, they progressively assessed these firms more optimistically.

Gradual substitution of an agency-based institutional logic for a stakeholder orientation makes firms which rank in sustainable index more legitimate in the eyes of both shareholders and analysts, as insurance-like protection may positively

contribute towards profitability. This occurs because more experienced analysts at higher status brokerage houses are the first ones to shift the relation between sustainable ratings and optimistic investment recommendation.

Hawn et al. (2018) analyse how a firm's addition, continuation, or deletion in a sustainability index (The Dow Jones) may affect investment priorities. Their results suggest a slight effect on stock market reaction among those firms ranking in the index.

Proposition 2: "*The compatibility hypothesis*". For authors supporting Stakeholder Theories, profits and real cost of production can operate in a complementary way in the appropriate economic and institutional context. The integration of social and environmental balance sheets provides incentives for companies so as to gain efficiency by other means, create value and find ideas and concepts that help firms to reduce costs and increase profitability.

2.2 Political Stakeholder Theory

However, some key questions remained unanswered in this theory. To begin with, it is not clear how managers identify their stakeholder and other affected groups and how they can manage their sometimes-conflicting demands. The fourth sector was born as an attempt by companies to voluntarily recognise social duties to avoid social damage.

Yet, this voluntary character was quickly associated with certain patterns of voluntarist philanthropy that could turn firms reporting IB into a simple emotional appeal, lacking verifiable obligations and without any real commitment to reinforce corporate responsibility.

The passing of time has shown that without an authorised intervention, the definition of what the company's social responsibilities are, who the responsible ones are for fulfilling these responsibilities, and above all, the concrete specification of interest and rights are intentionally unfulfilled or degraded (Wood 2008).

To solve some of these limitations, other contributions have either accepted the analytical and conceptual framework of ST, providing new and more nuanced evidence that seeks to improve the technical validity and better understanding of the theory. This is the case of the *Political Stakeholder Theory (PST).*

PST is an attempt to solve the undervaluation of the role of the state that is considered just a mere stakeholder in ST (Olsen 2016). It focuses on the role of the state in favouring transitions to ethical businesses.

This issue has not been adequately addressed by ST, although there is multiple evidence that the state plays a central role in encouraging not only a specific model of entrepreneurship but also the conditions under which ethics in business are more likely to happen.

Government and business are not two irreconcilable enemies that mutually exclude each other. On the contrary, there are good examples to believe that both

act as allies. If the government fails to create the legal infrastructures to balance property with other stakeholders' rights, business is unlikely to prosper.

Previously, other authors have already stated that capitalist business, without government intervention acting as a countervailing power, is not the most effective way to achieve ethical goals—that is,. sustainability, so corporations that cannot earn profits legally, ethically, and responsibly do not deserve to survive (Wood 2008).

The economic role of the State is not a new issue at all. The state has historically created the conditions for business. Free markets did not arise spontaneously according to supply and demand laws but from the deliberate actions taken by the states to remove the impediments to commerce, investment, and then by providing oversight of economic activity once it was freed from restrictions (Polanyi 1941).

But these impediments are eliminated and a self-adjusting market is consolidated, its socio-economic effects are harmful (inequality, unemployment, exclusion, and poverty), which produces continuous crises of demand and productive investment.

This is what Polanyi called "The double movement". All developed economies have gone through period of free market and laissez-faire followed by periods of state intervention and illiberal legislation on public health, working conditions, social insurance, etc. In his own words, "while laissez-faire economy was the product of deliberate state action, subsequent restrictions on laissez-faire started in a spontaneous way. Laissez-faire was planned; planning was not". (p. 141).

Another central element of Polanyi's critique of the free market which is useful in the debate on the fourth sector is the progressive loss of the instrumental character of the market economy. Using the concept of Embeddedness and analysing the contributions of anthropology to social knowledge, Polanyi reaches the conclusion that there cannot be a capitalist economy if there is not a capitalist society.

From another perspective, Mazzacutto (2018) has largely examined the economic role of governments from the point of view of risk-taking, funding of innovation, and market creation. She concludes that governments face huge risks, drive innovation, encourage economic growth, and pave the way to create stable and secure business contexts.

Private investors, including venture capital are unwilling to finance pioneering investment whose future returns are highly uncertain. Therefore, the government is not able to legitimise its role as a risk entrepreneur. That is what explains the frequent propensity to believe that innovation is a matter of private investment motivated by the "Creative Destruction" process typical of capitalism as suggested by Schumpeter.

In the case of the Stakeholder Theory, the role of the state as a risk-taking agent, innovation promoter and market creator has not been sufficiently taken into account. This lack of attention shows that this theory is rather forward-looking, and as such, ultimately aims to avoid public punitive regulations (Olsen 2016).

The state is not just a mere stakeholder since it creates internal and external constraints that shape the strategies and transactions that managers can use. Its role must not be ignored. When managers address stakeholders' claims to improve firms' ability to create value, the state is a unique actor that has the inherent attribute of

augmenting or diminishing other stakeholders' legitimacy—whether cognitive, pragmatic, or moral,[2] and thereby influences managers' strategic options.

When the regulatory environment allows stakeholders to become market players, pragmatic legitimacy (self-interest calculations) is more likely to happen. Yet, when the regulatory environment allows stakeholders to achieve moral legitimacy (co-creating acceptable norms of behaviour) legitimacy can come through contestation.

Olsen not only admits the inherent tensions and balances between market and state, but he sees them as the framework to better understand the multiplicity of market–state relations and how they operate over time.

Proposition 3: "*The State matters*". Governments and public institutions can use public finance and legislative resources to favour the transition of companies towards ethical business models. They may help recompose a new balance between incentives and disincentives that encourage companies to approach the Fourth Sector

2.3 Critical Theories

Yet, for other authors what lies behind Stakeholder theories and other ethical postulates is an implicit legitimation of capitalism by accepting that current social and environmental challenges can be efficiently faced from free-market conceptions of instrumental rationality, self-interest, and maximisation.

Yet *Critical Theories* (CT), market choices are not really free, but conditioned by structural inequalities that result not only in an unjust distribution of goods and services but also on a waste of labour and resources that restrict production to assure profit maximisation with the subsequent effects on unemployment and poverty, and unjust allocation of resources that tend to crowd out non-market resources and degrade the value of good (Sandel 2013; Wempe and Frooman 2018).

The causes of these self-contradictions and crowding-out effects are complex. For Satz (2010), free markets undermine the social framework needed for people to interact as equals. When people are so poor that they accept any term of exchange they are offered, the preconditions for the emergence of market diminished, and their most basic interests are undermined.

Moreover, "asymmetry in information and knowledge of markets participants" put some people at a disadvantage, thus preventing them from watching out for their

[2]Stakeholder Legitimacy draws from Suchman's (1995) typology: cognitive legitimacy is a "taken-for-granted" approach since institutions render disorder manageable and transform it into a set of intersubjective "givens" that submerge the possibility of dissent. Pragmatic Legitimacy is an "exchange legitimacy" that rests on the self-interested calculations of an organisation's most immediate audiences. Moral Legitimacy rests not on judgments about whether a given activity benefits the evaluator, but rather on judgments about whether the activity is the "right thing to do" "by cocreating acceptable norms of behaviour" (Olsen 2016:78).

interests. This results in the subordination of the majority to the increasing power of a minority.

The archetypical "homo economicus" agent interacting in a free-exchange market reduces social complexity to the one-sidedness of rational actors who hierarchise and maximise their utilities and preferences according to cost-benefit calculations. This is a reduction of the interests of the human being, much more predisposed socially, neurologically, and biologically to favour pro-social behaviours beyond self-interest (Singer 2013).

For Wempe and Frooman (2018) the main failure of stakeholder and other market moralist theories is that their arguments are often arbitrary and do not provide a systemic solution to develop a unified theory of the moral market. They advise that moralists should answer at least two key questions: Which goods are suitable for market production, distribution, and consumption and which are not? And for those unsuitable for the market, how ought they to be produced and allocated?

Proposition 4: "False Conciliation". For critical theory advocates, there is a false or impossible conciliation between business and moral. Capitalism is all about profits based on human exploitation, so any attempt to conciliate profits and the real cost of production is unrealistic. Firms assuming social/environment responsibilities are doomed to failure in a capitalist system, so IB initiatives are only a smokescreen to humanise capitalism without questioning its most apparent contradictions. IB are feasible only in the social economy sector or similar schemes where supply and demand equilibriums do not operate.

2.4 The Pragmatic-Critical Theory

Yet, what is the alternative then? Showing the existence of market failures is not the same as showing the economic virtues of the Critical Theory. This risk cannot be overlooked, since a high economic dependency on corporate reputation, responsible producers and consumers, impact investors and public resources may not guarantee the sustainability of an economy that attempts to conciliate business and ethics in capitalism, as it is the case of fourth sector.

The School of Pragmatism (SP) in business also emerged with the intention of improving some of the most apparent weaknesses and limitations of the ST. Some scholars have looked at the philosophy of The School of Pragmatism (Dewey, Mead or Peirce), especially the conflicting issue of voluntariness and the breach of commitments to social responsibility as an inspirational way to improve the deficiencies of the ST (Midtgarden 2012; Frega 2014).

Pragmatism in business is related to the concept of reality beyond the self, the false dichotomy mind–body, and the importance of science to connect individuals with the outside world. The SP identifies a company with an alive social organism that establishes its action on the belief that its self-realisation as a company is linked to the development of the society as a whole.

As a social organism, any firm has to understand the reality and the environment in which it operates, facing the multiple challenges that this environment generates (Visser 2019). Organisations are means to human ends, not a possession, so any reorganisation of production (downsizing) needs coordinated strategies with different stakeholders to lessen the pain of reorganisation (integrity).

In sum, Pragmatism in business provides managers objective ethical conditions based on experience, integrity, and inquiry to adapt the context of production and the socio-environmental consequences of the company, here understood as a social organism.

There have been some several intents to explore and conciliate Critical Theory with other closer theories, their share conceptions, means and ends, especially the Pragmatic and Critical theories (Frega 2014; Visser 2019).

The Pragmatic-Critical Theory (PCT) is a *Hybrid Theory in Business* that acknowledges the crucial importance of self-realisation, understood as intersubjectively constituted through mutual recognition and bound to the development of the wholeness, typical of Pragmatist and Critical approaches. This outside-looking mode of self-realisation runs necessarily into the very idea of collaboration and democratic participation.

The current context of increasing liberal poignancy and commodification, with its instrumental rationality, maximising logic, and oligopolistic and hierarchical structure is not the best scenario for self-realisation (Visser 2019).

Proposition 5: "The organic hypothesis". Since firms are seen as an organism alive, where possession does not constitute the main purpose of a company, only those companies adopting cooperative/collaborative productive structures can overcome the inherent contradiction between profits and real costs in capitalism.

From our standpoint, this theoretical debate lacks a more structural vision focused on entrepreneurship productive features. The theories analysed above see companies as a rather homogenous productive actors in the economy, not properly considering how different characteristics associated with firms' productive structure can affect the probability for a company to report IB.

Proposition 6: "*Firms' productive structure also matters*". Size, seniority, or the sector of activity where firms operate are expected to have an effect on the propensity of firm to report IB. We set out to provide insights on firms' propensity to report IB and how such propensity can affect the fourth sector.

3 Empirical Analysis

The main purpose of the following empirical analysis is to explore the existence of statistically significant connections between firms and IB. More specifically, we seek to analyse how key characteristics of some firms that are associated with the productive structure have not been sufficiently studied and help to better understand which firms are more likely to report IB and by extension, to be part of the fourth sector

Most of the companies examined in the above literature review tend to be those ranking in Dow Jones Sustainability Indices and similar, where large/multinational companies in e-technologies, banking, energy, and distribution sector are predominant.

From the standpoint of this chapter, the relationship between profits and real costs of production, which is the base of the Integrated Balances, can be better understood by analysing key firms' characteristics, beyond what the above shown theories can provide to a better understanding of the relationship between business and ethic as a key pillar of the fourth sector.

Our analytical model puts forward a series of hypothesis that come from firms' main characteristics. Therefore, we hypothesise that the size of the firm matters in predicting the probability for a company to report IB, so that *the larger the company, the higher the probability to report* ($H_1 - Model$ 1).

Similarly, a firm's domestic/international character is suggested to act as a good predictor of its propensity to report IB. We put forward as a hypothesis that being multinational, with respect to be a domestic one that focuses on a local market, is expected to increase the probability for a company to move towards SE models (H_2 – *Model 1).*

The sector of activity has been also pointed as a good predictor. Since most companies in sustainable indices tend to operate in the services sector, the likelihood of transiting to IB model is higher in this sector, compared to other sectors (agriculture and industry ($H_3 - Model$ 1).

Firms' seniority is also expected to predict SE model, although the effect is not so clear. At first sight, one might think that younger companies would be more aware and willing to move to SE models. However, it is also likely that the transition to SE models will occur in more consolidated stages of the company. So, we hypothesise that *the younger the company, the higher the probability for the company to move to SE model* ($H_4 - Model$ 1).

The public vs. private character of the firm is also expected to be a good predictor of SE as well. As stated by the Political Stakeholder Theory, the state plays a key role in promoting the SE sector. Therefore, we propose as a hypothesis that the public character of a company may play an "exemplary role", not only by providing an adequate and friendly pro-SE legislative framework but also by encouraging public companies to transit to SE models. As a result, the public character of the firm is expected to increase the probability of value 1, namely, reporting integrated balances SE (H_5 – *Model 1*).

Model 1 has been complemented with two additional linear models. The linear *Model 2* seeks to shed light on the variables that significantly help to explain the quality of the reports and *Model 3* the quantity or regularity of these reports using the same set of predictors.

4 Why Uruguay?

Uruguay is usually a Latin American exception in many aspects, mostly in a positive sense. Its high levels of economic development, its comparatively low levels of poverty and exclusion, great digital development, and very stable political system make this economy a good case study to investigate how these characteristics can partially explain the patterns of transition to SE models.

For the Heritage Foundation (2019), a foundation with a liberal bias promoting free-market policies, Uruguay's economy stands out in the region for its relative openness backed by a strong commitment to upholding the rule of law. It is the least corrupt country in Latin America. After recovering in 2017, the economy has achieved moderate growth, but structural problems, which include an appreciated real exchange rate, high taxes and an inflexible labour market, remain.

Uruguay is an economy with important potentialities linked to its economic development and wealth, the spread and consolidation of the digital resources and a relatively easy access to credit. However, these potentialities are diminished by serious limitations linked, above all, to the low social recognition of the entrepreneurship and certain difficulties, mainly of a legal nature, in doing business.

Uruguay's nominal GDP/per capita reached $17,000 (IMF, WB, and UN sources), above most Latin America economies. According to the International Communication Union annual report, Uruguay ranked 42nd worldwide in 2017 after a significant improvement, since just the precedent year it ranked 48th. But most importantly, it ranks first among Latin American countries, at a significant distance from the rest.

Among the most outstanding potentialities, this report highlights the strategic planning and investment in digital tools, the positive evolution in the acquisition of services in all segments of the sector, including those that operate as monopolies such as fixed broadband.

The digital divide has been reduced considerably, the efforts of the government and other public entities have allowed the vast majority of households, including low-income ones, to have access to broadband and the mobile phone market is very spread out, with three companies operating that offer all the services available at any latitude.

Regarding other economic aspects, Uruguay ranks 95th in a 190 countries classification on how easy it is doing business (Doing Business Report 2019). This position is far removed from the expectations of a country with good indicators of GDP per capita, regional leadership in digital issues, etc.

If we look at the indicators used in these reports, we see that within the poor position of Uruguay, two of its best indicators are "the ease of starting a business" and "the ease of obtaining a loan", both with a clear effect on facilitating entrepreneurship.

It is rather easy to start a business (65th). It takes five different processes to launch a business that usually lasts for about 6.5 days with a cost (taxes and fees) of about 50,000 pesos ($1300). These figures are significantly better than those from other

Latin American economies, where an average of 8.2 processes that last 28.5 days are required.

Although the vast majority of Uruguayan companies are still absent from the fourth sector, leading organisations such as B-Corp, SocialLab, or local ones are already operating in the Uruguayan economy, paving the way to the spreading out of SE in this economy.

This context places Uruguay as a very interesting case study for a better understanding of Integrated Balances as an antecedent of future development of the fourth sector in the Latin American region

5 Methodology

In order to trace the statistical connection between these independent variables on the probability for companies to report integrated balances, we set up three different inferential models conditioned by three different dependent variables.

In the first analysis, we use a *Logistic Regressions of the Probability* of reporting integrated balances (value 1) versus not reporting (values 0) (dummy variable). This dependent variable is modelled as a function of the following number of predictors or independent variables:

$$P(x) = \frac{e^{\left(\beta_0 + \sum \beta_i n_i\right)}}{1 + e^{\beta_0 + \sum \beta_i + n_i}} = \frac{e^{(\beta_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \beta_4 x_4 + \beta_5 x_5)}}{1 + e^{(\beta_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \beta_4 x_4 + \beta_5 x_5)}}$$

where

x_1 = Public Vs Private
x_2 = Domest/International
x_3 = Sector Activity
x_4 = Size
x_5 = Seniority

In the second and third models, we use a Linear Regression to explore the quality and frequency of IB. The dependent variable in model 2 is a numerical one, made of three values, being value 0 = those companies not reporting Integrated Balances, value 1= companies that report incomplete balances, values 2= companies elaborating complete integrated balances according to international standards (GRI indicators and similar).

$$Y = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \beta_4 x_4 + \beta_5 x_5 + e$$

where

x_1 = Public Vs. Private
x_2 = Domest/International

x_3 = Sector Activity
x_4 = Size
x_5 = Seniority

In the third model, the dependent variable is the sum of integrated reports that each company has reported since its birth. We have divided the number of reports and the number of years the company has been running in order to create a ratio of values from 0 to 1 that indicates the frequency each company reports integrated balances.

$$Y_1 = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \beta_4 x_4 + \beta_5 x_5 + e$$

where

x_1 = Public Vs. Private
x_2 = Domest/International
x_3 = Sector Activity
x_4 = Size
x_5 = Seniority

6 Results and Some Tentative Conclusions

6.1 Descriptive Analysis

Our sample is made up of 140 cases (companies) classified according to various criteria. We first gather firms on the criteria of "being one of the 100 most important companies in Uruguay", in the understanding that those companies are the ones with the highest financial volumes and profits.

The majority of the productive system in Uruguay is made up of microcompanies and self-employed workers, the vast majority of whom do not report integrated balances. We spent time randomly tracking whether some of these microcompanies and self-employees reported balance sheets, and the result was straightforward: no microcompany or self-employed ones report IB.

In this sense, the database is not thought and designed to identify patterns of IB in the whole economy, which is still a minority, but of those companies, firms and sectors more predisposed to incorporate logics of IB and explore their potential and limitations in order to understand the development of the fourth sector in Uruguay.

Yet, we have seriously tried to improve the statistical representativeness of our database by randomly adding another 40 companies of different size, seniority, and productive orientation, both public and private, domestic or international, 10 of each sector of activity plus 10 of the "social economy".

These new cases give a more detailed account, although not necessarily representative of the patterns of SE in Uruguay through integrated balances ($n = 140$) (Table 1).

Table 1 Descriptive analysis: data base composition

Total database	Firms reporting IB
Firms reporting IB: 58,52% Firms not reporting IB: 41,48%	
Nature of the firm	*Nature of the firm*
Public companies: 10.29% Private companies: 87.71%	Public companies: 15.19% Private companies: 84.81%
Character of the firm	*Character of the firm*
International companies: 38.24% Domestic companies: 61.76%	International companies: 35.44% Domestic companies: 64.56%
Sector of activity	*Sector of activity*
Agriculture: 19.85% Industry: 22.06% Services: 58.09%	Agriculture: 17.72% Industry: 20.25% Services: 62.03%
Size	*Size*
>1000 workers : 40.4% >500 <1000: 25.8% >251 <500: 20.1% >51 <250: 9.2% < 50 : 4.4%	>1000 workers : 44.30% >500 <1000: 25.32% >251 <500: 20.25% >51 <250: 2.53% < 50: 7.59%
Seniority	*Seniority*
0–10 years old: 5.2% 11–20: 22.1% 21–30: 26.9% >30: 45.9%	0–10 years old: 1% 11–20: 1.27% 21–30: 26.58% >30: 71.15%

Source: own elaboration

The profile of the prototypical firm reporting IB in Uruguay is a *large-private company in the service sector with more than 30 years of experience operating in the domestic market.* Percentages above the 50% are observable in these variables, especially in private character of the firm, sector of activity, size and seniority

This profile is interesting because it provides insights on how firms' characteristics are already defining the IB sector in Uruguay. Most companies reporting are large firms (44%) operating in the service sector (62%) with long business trajectories and experience (72% are more than 30 years old).

The percentages of young and small firms reporting are still rather marginal, which reinforce the idea that IB is mostly a question of large and consolidated (old) companies.

These figures seem to reinforce the "trade-off effect" (proposition 1) that see impossible to conciliate profits and real cost, while identifying IB with a marketing strategy to enhance the corporate image of companies to gain new markets.

The overrepresentation of consolidated companies (30 years or more) seems to indicate that only these companies are ready to assume additional costs in exchange of a better corporative image of growth.

However, there are some nuances and evidences that question this trade-off effect. First, although a majority of firms reporting are large (1000 workers or

more), medium-sized companies are also abundant, which may indicate that the size of the firm may not be significant in explaining of reporting IB.

Moreover, IB is not just about private firms. Public companies reporting IB are overrepresented with respect to the whole sample. This overrepresentation indicates that the "state matters" in spreading the use of IB are playing an exemplary role to consolidate the increasing number of firms reporting. In this sense, the "State matter proposition" seems to be reinforced by the descriptive analysis as well.

More interestingly, the fact that most abundant firms reporting in Uruguay are large size and consolidated can be also interpreted in a different way. These firms may report not exclusively to improve their corporate image, but also to create and improve a new financial sphere where profit and real production costs coexist ("Compatibility hypothesis") as suggested by the Stakeholder Theory.

They may indeed be finding a new way to gain efficiency by other means, creating value that helps these big companies to reduce costs and increase profitability.

Yet, this descriptive analysis does not allow us to infer patterns of causality and by extension, we cannot state that IB respond to a strategy of marketing, efficiency or both, especially among large companies.

The same applies to other variables such as the nature of the firm or the sector of activity. Although a majority of firms in the service sector are private, we cannot state that those features can explain IB in Uruguay.

It is one thing to say that a majority of firms reporting have certain features and another thing is to trace a statistical-causal connection among these variables and the probability of reporting. This is why we propose to carry out an inferential analysis that will allow us to measure the effect of these variables on the probability of reporting IB.

6.2 Inferential Analysis

In the following analysis, we set out to shed some light on the debate of IB by examining firms' characteristics associated with the productive structure of companies. The three dependent variables showed above (reporting IB, quality of reports and frequency of reports) were modelled as a function of the following number of predictors or independent variables:

- Public versus Public nature (dummy variable)
- Domestic versus International character (dummy variable)
- Sector of activity (categorical variable)
- Size (numerical variable)
- Seniority (numerical variable)

Our models display strong similarities among each other. Two key variables (the public nature and the international character of a company) significantly increase the

Table 2 Logistic regression of the probability of "Sustainable Enterprise in the fourth sector"

	Model 1 Logit R
Nature (Public ref.) Private	–4.211***
Character (domestic ref) International	2.878***
Sector activity (Agricul. ref)	
Industrial	.157
Services	.279
Size	–.052
Seniority	–.044
cons	1.898
Model sensitivity	96.88%
Model specificity	39.29%
Correctly classified (cut-off point 0.50)	70.00%
Pseudo R^2	0.1892
MacFadden	0.1911
Goodness of fit test (Prob > chi^2)	0.0011
n	136

Source: own elaboration Significant: $*P \leq 0.10$, $**P \leq 0.05$, $***P \leq 0.01$

probability for a company to report integrated balances (value 1), regarding not reporting these balances (value 0) (Tables 2 and 3).

All other conditions being equal, an additional unit in the variable "nature of the firm"(being private) decreases the odds of our dependent variable, which in fact suggests that public companies are more likely to report.

Olson's proposition on how the "State matters" in spreading and consolidating the use if IB seems to work in Uruguay. Public companies increase the chance of reporting in our analysis, which places it as a key driving force in spreading IB.

State commitment to expanding the IB sector, starting with their own companies, can be interpreted as an exemplary strategy to encourage other private, young companies, which join this IB model.

The State plays a central economic role by acting as a risk-taking agent, innovation promoter, and market creator. Yet, its role does not end here. It could become a very active agent, if in addition to reporting IB in its companies, it also becomes a consumer of the products of those companies that use IB logics.

Therefore, Political Stakeholder theory implications regarding the executing and exemplary role that the state plays in promoting not only friendly legislation and economic incentives but also the adoption of IB in public companies seems to work in Uruguay.

Similarly, being an international company compared to being a domestic one increases the chance of reporting as well. Similar effects are observed in the other two linear models considering the quality and frequency of IB.

Table 3 Linear regressions of the probability of "good SE reports (quality) and amounts of reports (quantity)"

	Model 2 Linear R	Model 3 Lineal R
Nature (Public ref.) Private	–1.30***	–1.040***
Character (domestic ref)		
International	.881***	.361**
Sector activity (Agricul. ref)		
Industrial	.285	.182
Services	.287	.164
Size	–.098	–.041
Seniority	–.081	.012
cons	1.568	3.426
R-squared	0.1618	0.1939
Adj *R*-squared	0.1276	0.1549
Mean VIF	1.47	1.40
Heteroscedasticity	0.0073	0.0535
Skewness	0.0437	0.3208
Kurtosis	0.0000	0.0002
n	133	134

Source: own elaboration Significant: $*P \leq 0.10$, $**P \leq 0.05$, $***P \leq 0.01$

This is interesting because it questions some of our claims about two variables that we pointed as key in the descriptive analysis, namely, size, and seniority. The lack of statistically significant effects of these variables indicates that it is neither firms' size nor seniority what explains their propensity to report but their international character.

We underlined that the overrepresentations of companies reporting with more than 1000 workers and 30 years of experience were a definitive feature of the IB sector in Uruguay. Yet, our model shows that these variables: more workers or more years do not significantly affect the probability of reporting IB.

This seems to explain firms' propensity to report, namely, the system of incentives operating in responsible markets from abroad. Domestic companies that seek to operate in international markets, especially in those markets which are more sensible to sustainable issues, could find incentives to assume the real cost of production in exchange of an acceptable corporate image to growth abroad.

Similarly, although most companies are service-oriented, this variable is not statistically significant either. The service sector with regard to agriculture and industry does not explain the odds of reporting IB.

These are the most relevant findings. The public nature and the international character of a company not only significantly and positively affect the odds of reporting integrated balances but also the quality and quantity of these reports in Uruguay.

Being a public or an international company not only increases the chance for a company to report but also increases the quality and frequency of these reports in this country.

International and public firms are acting as driving forces in the expansion of IB. The former by assuming real cost of production to gain responsible consumers and markets abroad and public firms to develop sustainable sectors inside.

This can be interpreted as the expected pattern in an economy where the productive fabric is mainly made up of microcompanies and self-employees. Most Uruguayan firms are not structurally ready to assume real cost of production since the incentives of gaining international market is out of reality for them.

Another important finding that derives from our result is the specific patterns of expansion of IB in Uruguay. The fact that two apparently dissimilar and frequently confronting institutions such as public companies and international/multinationals are taking the lead in promoting IB, suggests a "top-down" pattern of IB expansion.

This may respond to a logical consequence in countries where responsible consumers, investors, and entrepreneurs are not so abundant yet. The youngest and smallest firms willing and able to report could benefit from public policies in search of promoting IB and the action of international companies as engine of promotion.

Yet, these limitations can also be used as opportunities if local networks that link IB companies with each other and with other local "responsible" investors, producers, distributors, consumers, and government are activated and fostered in Uruguay.

The presence of leading organisations that promote IB in the fourth sector (i.e. B-corporation) already triggers and empowers "traditional" firms with different characteristics in different sectors to move towards IB schemes.

These networks could provide the fundamental and necessary incentives and resources that a small company needs in its transit towards new guidelines of sustainable entrepreneurship in the fourth sector. This, alongside the role that public and international companies are playing to spread of IB, is expected to help the fourth sector to grow.

Unfortunately, our results do not allow us to explore patterns of causality and their relation with "Critical" propositions from the above-mentioned literature. As explained above, these theories are critical of capitalism, proposing a new "social economy" framework for companies to operate.

Our database is not thought for these purposes, so nothing can be inferred from our results regarding the validity of this theories. Only one out 10 social firms reports IB in our database, which implies that the social economy is not still developed and aware of the IB potential and limitations.

This investigation opens new lines of research linking IB and the fourth sector. Uruguay is a good starting point to analyse this link, but similar analysis should be also carried out in the South America area and the whole Latin American continent.

Good comparative analysis among these Latin American countries with each other and with other European realities are also welcomed in order to find patterns of IB development associated with different levels of economic development.

These analyses are expected to provide insight on how IB and the fourth sector are related and how a fine understanding of the former can help understanding the fourth sector.

The fourth sector is not alien to this debate. The way in which for-profit companies solve and soften the tension between profits and real costs of production will define the future development of the fourth sector all over the world in developed and developing economies.

This point is key. IB provides a concrete and realistic instrument to take on the challenge of leveraging profits and typical purposes of the fourth sector.

It helps turn the fourth sector into a credible alternative for companies to solve the world's most urgent social and environmental problems, beyond slogan and marketing strategies.

Although not all companies that report IB belong to the fourth sector, companies that do belong to it will have to incorporate IB schemes as a concrete and transparent instrument to measure and make their commitment to sustainability credible.

The fourth sector does not aspire to be a traditional way of doing business in new social and environmental sectors, but rather a new way of understanding entrepreneurship and its role in solving major global challenges.

Furthermore, the incorporation of IB will substantially transform businesses in the fourth sector. It will force these companies to seek new, more sustainable, and innovative ways to profit. This comprehensive search for innovation at an economic, social, and environmental level will be its true distinguishing factor with respect to the social and the market economy.

If the fourth sector remains on the side-lines of this debate on IB, being part of the fourth sector will basically implies being able to do businesses in promising social and environmental sectors. The promise of contributing to a more socially and environmentally sustainable world from the firm will not go beyond a marketing strategy to win new markets.

Therefore, IB represents a promising further step in the expansion and consolidation of the fourth sector.

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