

The Fourth Sector: The Future of Business, for a Better Future



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Abstract We are facing a new trend in doing business moving beyond corporate social responsibility where new hybrid business models are formed to address a variety of societal and environmental challenges. The fourth sector can be defined as the group of organizations, models, and practices whose objective is to solve the great problems of the twenty-first century, combining elements from the three traditional sectors: the public, the private, and the nongovernmental. The fourth sector is rising in different forms in this new entrepreneurial landscape such as social enterprises, business-owned enterprises, cross-sector collaborations, and B corporations. Businesses within the fourth sector are blended value organizations because they pursue social and environmental goals at the same time that they use business methods. This chapter disentangles the meaning of the fourth sector shedding light on the new entrepreneurial ecosystems for new sustainable business models.

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M. I. Sánchez-Hernández et al. (eds.), *Entrepreneurship in the Fourth Sector*, Studies on Entrepreneurship, Structural Change and Industrial Dynamics,
https://doi.org/10.1007/978-3-030-68390-0_2

Keywords Fourth sector · Hybrid business models · Social entrepreneurship · Sustainability

1 Introduction

Sustainable entrepreneurship is not an option anymore. Today's traditional economic systems and business models have become outdated (Schweizer 2005). Although tremendous progresses have been made by corporate social responsibility (CSR) interventions—from public, private, and nonprofit organizations (Kleine and Von Hauff 2009; Aguinis and Glavas 2013; Jamali and Carroll 2017)—the scale and urgency of the world's biggest challenges have grown at an alarming rate, and the general call for action represented by the Sustainable Development Goals (SDGs) (United Nations 2015) needs new entrepreneurial ventures.

We are facing a new trend in doing business. There are so many expressions of this trend within the universe of knowledge created around the general term “sustainable entrepreneurship.” We refer, for instance, fair commerce, collaborative economy, microfinance, venture philanthropy, social enterprise, community development, and others. As this activity matures and grows up, it is becoming formalized as a fourth sector of the economy. We can say that traditional businesses are moving beyond CSR and the fourth sector is rising in different forms in the new entrepreneurial landscape (Kumar 2019a, b). Particularly in the exogenous context of uncertainty that covers the global economy and the existence of one crisis-prone world, the development and evolution of this fourth sector become more and more relevant and need more endurance (Bhattacharjee and Jahanshah 2020). The current coronavirus (COVID-19) pandemic is also a new contextual factor demanding more public-private partnership around the world (Evans 2020; Park and Chung 2020).

The examples of entrepreneurship in the fourth sector represent new ways in which societies address wicked problems. We are seeing a proliferation of new hybrid business models formed to address a variety of societal challenges. These businesses consciously or not blend characteristics from all sectors and are difficult to classify within the boundaries of any traditional sector. However, businesses within the fourth sector share two common characteristics: they pursue social and environmental goals at the same time that they use business methods. That could be resumed in a single feature; they are blended value organizations. Next sections will serve for disentangling the meaning of the fourth sector and shedding light on the new entrepreneurial ecosystems for new sustainable business models.

2 Disentangling and Shedding Light on the Meaning of the Fourth Sector

The traditional division of economic sectors into first, second, and third sectors is lightly out of date. The new socioeconomic landscape is characterized by entrepreneurial ecosystems looking for sustainability, and new goals emerge such as eradication of poverty, gender equality, social justice, and environmental protection. Accompanying this trend new business models appear that are difficult to classify into a traditional sector.

The first sector is the public sector (government) that protects and expands the principles of democratic freedom for both individuals and communities. The public sector has to protect the public interest, and at the same time it has to ensure a common framework of laws and rules and their enforcement at a scale that matches the scale of human activity and prosperity. It is presumed that the public sector has the responsibility to provide security and to make decisions to promote the best interest of society. However, public-private partnerships (PPPs) are recently attracting the attention of academics and practitioners as promising organizational solutions to pressing societal problems that demand for the comparative advantages of not only government but also of business and civil society (Brinkerhoff and Brinkerhoff 2011).

Today, the public sector faces not only a number of challenges such as efficiency and transparency but also a certain market discipline to be competitive.

The second sector is the private sector (business) that creates and distributes goods and services driven by revenue and growth. However, that should generate economic development and prosperity, enhancing the quality of life of individuals. This sector should spur innovation, reward entrepreneurial effort, provide a fair return on investment, and constantly improve performance responding to market feedbacks. This sector should draw on the skills, talents, and efforts of workers, to share with them the economic value created by the enterprise.

The third sector is the social sector (nonprofit) that works to ensure that all people have adequate necessities of life, an equitable share of wealth and resources, and opportunities to develop their full physical, mental, and spiritual potential. The third sector helps to protect the environment and works to ensure that human capacities, technologies, and organizations sustain and support the Earth, its diversity of life, or the ecological systems that support life. The nonprofit sector is separate from both the public and private sectors, but it may collaborate with either of them at any given time. Basically, the third sector has characteristics that link it to both the public and private sectors. Third sector organizations have a private origin (in companies or groups of citizens) but do not seek profit. The missions of these organizations are comparable to those of public institutions and often replace these entities in regions or sectors of activity where the state is unable to reach. Therefore, they have a special relationship with the state; for example, they benefit from a more favorable tax regime. The main purpose of a nongovernmental organization (NGO) is to help the public in some ways, so profit is not a governing factor. The organization must seek a

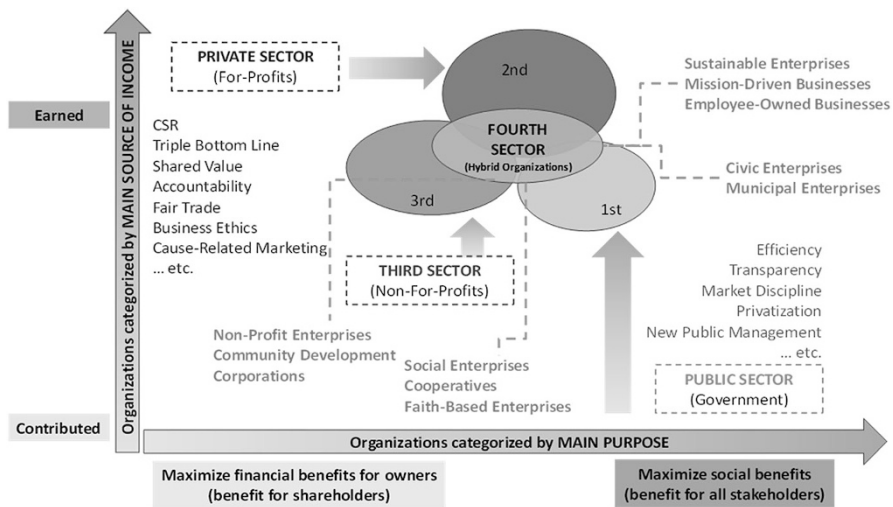


Fig. 1 Emerging organizations in the fourth sector. (Source: Author’s elaboration based on Sabeti and Ponting (2017))

balance between expenditures, time, and expertise in its charitable initiatives while making sure there are enough funds to keep working.

However, over the past few decades, the boundaries between the three traditional sectors have been softened as many entrepreneurial and innovative organizations have been including social and environmental purposes with economic business approaches.

According to Sabeti (2009, 2011), the fourth sector is defined as a new sector of organizations at the intersection of the public, private, and social sectors. The fourth sector is a relatively new sector that consists of for-benefit organizations that combine market-based approaches of the private sector with the social and environmental aims of the public and nonprofit sectors. Companies in the fourth sector can be defined as the group of organizations, models, and practices whose objective is to solve the great problems of the twenty-first century, combining elements from the three traditional sectors: the public, the private, and the nongovernmental (Jiménez Escobar and Morales Gutierrez 2011); the importance of sustainability in this process is observed. These emerging kinds of organizations, which are not purely for-profit or purely not-for-profit organizations, but rather a blend, are positioning as the future of sustainable business (Sabeti and Ponting 2017).

In line with Sabeti and Ponting (2017), Fig. 1 tries to represent the emerging fourth sector as a complement of the other traditional sectors extending their capabilities to drive a positive change in society in the near future looking for sustainability.

For the private sector, the fourth sector’s development will bring access to new and expanded markets and new business models for attending new customers, experimenting new investments, and reaching never imagined opportunities. The

fourth sector gives the private sector the opportunity to go beyond shareholder satisfaction to enhance stakeholder engagement, strengthen supply chains for reinforcing market competitiveness, and improve reputation, productivity, and business performance.

For governments, the growth of the fourth sector will bring increased revenue and greater private investment, and it will stimulate job creation and general economic growth while reducing the liabilities linked to social and environmental degradation. According to Alessandrini (2002), the rise of the fourth sector is probably a direct consequence of the impact that neoliberalism is having on organizations from the third sector. The author argues that civil society has been traditionally composed of organizations covering an infinite range of topic areas, ranging from self-interest to charitable service-oriented bodies, whose activities were usually highly specific and based on a single characteristic, such as race or shared cultural interest. However, globalization and the introduction of neoliberal policies and market mechanisms in social welfare areas in so many countries are causing shortfalls in public sector budgets (Alessandrini 2010).

To fill these gaps, the fourth sector brings the possibility to develop entrepreneurial civic services, driven by goals of social responsibility and humanism and sometimes by religious convictions but provided by new social entrepreneurs and organizations that are in many respects indistinguishable from commercial businesses. In general terms, and for the third sector as a whole, the emerging fourth one brings new contracting and partnership opportunities, increased philanthropic resources, and the opportunity to build market-oriented solutions, potentially self-sustaining and scalable.

To sum up, the fourth sector is intrinsically linked to the concept of social innovation that has been defined as new ideas (products, services, and models) that simultaneously satisfy social needs and create new social relationships or collaborations. In other words, the fourth sector promotes innovations that, at the same time, are good for society and increase the capacity of society to act (Bignetti 2011).

3 New Ventures Between Private and Public Entities

The fourth sector promises to unleash a new wave of entrepreneurship based on social innovation that can deliver scalable solutions to the current global challenges. Its growth can accelerate a transition toward more inclusive, sustainable, and resilient economic systems. New entrepreneurial ventures between private and public entities are emerging as described as follows.

3.1 Sustainable Enterprises

Corporate sustainability is the name given to the set of actions adopted by companies with the aim of acting consciously and always combining respect for the environment and the society in which it operates. In other words, an organization can be considered sustainable when three aspects are taken into account: economically viable, socially fair, and environmentally friendly. According to Rubio-Mozos et al. (2019), these organizations, in addition to seeking their economic survival, consider that it is important to generate benefits for society as a whole. Therefore, the development base of these companies takes into account the sustainability process.

Gazzola et al. (2018, p. 28) have stated that “sustainable enterprises respect for human and workplace rights is engrained in the company culture and guides the interactions with employees, partners, suppliers, customers, consumers, and the communities they serve.” Thus, companies or organizations in the fourth sector have corporate sustainability as one of the pillars in the creation and management process. In addition to being of great social and environmental importance, corporate sustainability helps the company to positively position itself before its consuming public. But it is important to understand how sustainability should be adopted and implemented considering aspects of the context in the fourth sector. It must allow the business to be able to sustain itself and survive by acting in a sustainable manner.

Edgeman et al. (2016) present the nature of sustainable business excellence, that is, its facilitators and specific manifestations. In addition, the authors present a comprehensive model of excellence, resilience, and robustness of the sustainable company, together with its facilitators. Among the facilitators are proficiency in the supply chain, vertical trust, distributed leadership, and neuropsychological measurement.

3.2 Mission-Driven Business and Cross-Sector Collaborations

Some companies are the result of perceived opportunities for organizations to recover or build their legitimacy in addressing the main problems of society, such as the increase in inequalities and climate change, which are often considered to be driven by “unrestricted capitalism” (Wilburn and Wilburn 2014; George et al. 2016). The business organizations are aware that the objective is not to obtain image gains, revitalize the brand, or increase market share in short term but to change their behaviors and improve their well-being.

Mission-driven business practices or inclusive businesses (Lashitew et al. 2020) and business cross-sector collaborations are implicit references to the global sustainable development agenda and its approach to SDG 17, “partnerships for the goals.” These cross-sector (public and private) partnerships have emerged as

promising means for addressing complex sustainability challenges—or “grand challenges” (Gehman et al. 2018) that fall between the capability and responsibility of different societal sectors (business, government, and/or civil society) (Koschmann et al. 2012). They also regard the capability for innovation and multi-stakeholder engagement/alignment to face the manifold social challenges of the world (Velter et al. 2019).

Despite the promise and potential of mission-driven business, there are some difficulties in aligning different (public and private) interests (Clarke and Crane 2018) as well as inequality between organizations (related to an unequal share of resources or misallocation of costs and benefits), which can lead to struggles over power and influence (Austin and Seitanidi 2012), or cultural differences that involve communication problems and/or lack of trust (Fobbe 2020).

3.3 Employee-Owned Business

There is a growing sense that the traditional business governance system has to move to new means of governing the economy and workplace (Souleles 2020). The system needs to support more inclusive and sustainable forms of development, providing people with a meaningful voice (Thorpe 2020).

Employee-owned firms are clearly gaining momentum. They are seen as an alternative and flexible business model that aims to establish itself as a third alternative, different to conventional private firms and public enterprises. The employee-owned firms hold “dual stakeholders” as both owners and workers induce a better economic performance when compared to conventional firms due to their greater incentives to maximize it (Fernández-Guadaño and López-Millán 2019).

The businesses owned by employees are managed through workplace democracy, the workers or their representatives have direct influence over business decision-making, and there are no strict hierarchies (Thorpe 2020). Generally, the decisions are made through a system of self-managed work teams, which are small enough to secure ownership in collective decision-making and the free flow of information and knowledge (Kokkinis and Sergakis 2020). Especially during economic recession periods, with depressed employment markets, employee-owned businesses become a defensive measure to retain the employment (Fernandez-Guadano 2015; Wren 2020).

An employee-owned business can take different forms such as: (i) employee share ownership plans, a typical form that is popular in the USA, although not used much in Europe; (ii) savings plan with contributions from the employee and/or employer as it is most common in the UK and Ireland; (iii) producer cooperatives, in which all the firm’s shares are collectively owned by its workforce; and (iv) producer cooperatives resulting from employee buyouts, under which the company’s shares are purchased exclusively by its individual employees.

3.4 *Civic Enterprises*

The incapacity of the state to respond to the increasing population needs is often a consequence of decisions to resize (downsize) public intervention as well as greater restrictions on the public budget available. In this context, civic enterprises are, in general terms, a community initiative that arises to answer personal or collective needs whose satisfaction was usually carried out by the state. Civic enterprises can also be designated as “business community,” “business for social purposes,” “community wealth company,” and “social enterprise,” among others. Civic enterprises put together nonprofit objectives with the implementation of innovative proposals in terms of organization, financing, and governance and aim at the common well-being.

The main characteristics of these companies can be defined around economic and social criteria (Reficco et al. 2006). In the economic domain, civic enterprises are characterized by (i) sustained activity (not sporadic) aimed at production and services; (ii) high degree of autonomy; (iii) significant level of risk; and (iv) minimum level of paid work. As social characteristics, these enterprises present (i) explicit objective of benefiting a community; (ii) initiative initiated by a group of citizens; (iii) decision-making based on the capital property; (iv) participatory nature in decision-making, democratically intervening all parties with interest; and (v) limited distribution of earnings (Reficco et al. 2006: 406). This way of social participation is described by several authors as more innovative and democratic: “Citizens and residents find themselves drawn into policy making as well as practical delivery, linking policy and action in a much more intimate way than is common in standard models of “public participation” in formal planning processes” (Wagenaar et al. 2015:557). The activities of civic enterprises are mostly small in size and carried out in close proximity, in order to solve a problem, or a need, in a specific context. Wagenaar et al. (2015:558) describe many examples of these activities: “looking after parks and playgrounds, organizing social groups for older people, running a festival or sports event, to running a significant business as a social enterprise, delivering housing or care services, investing in community sustainable energy provision or water management, regenerating a neighborhood or village center, or expanding work and training opportunities.”

3.5 *Municipal Enterprises*

Municipal enterprises have been defined as “those business-like activities of government that provides goods and services to customers on an exchange basis. They are usually considered to be largely self-supporting, removing the burden of providing specific goods and services from cities’ tax revenues” (Stumm 1997: 477). Municipal enterprises are an innovative way of reorganizing the public goods and services provision at a local scale in a context in which traditional public services are no longer able to provide a satisfactory answer to the needs of citizens and

organizations within the scope of the welfare state. Municipal companies all over European countries came up with objectives related to (i) the creation and maintenance of jobs; (ii) the development, by the public sector, of corporate organizational forms in order to improve public missions; (iii) the response to financial difficulties of local authorities; and (iv) the development of partnerships, involving municipal entities and private partners or other public.

Municipal enterprises have different characteristics and purposes in different countries according to the rules and the scope of the local public administration as well as the main areas with regard to the welfare state. For example, in Portugal, local enterprises are constituted according to the private companies' rules even though they are controlled and/or owned by municipalities, associations of municipalities, inter-municipal communities, or metropolitan entities (all public entities) and can exercise any functions of those that are legally assigned to municipalities. A large proportion of local enterprises are active in the production and distribution of goods and/or services with characteristics of "public goods" or private goods with positive externalities ("goods of merit"). These companies are located all over the country doing many activities as management of water networks, waste, industrial areas, exhibition parks or professional schools, social housing, and urban and inter-urban transport, among others.

In Finland, a municipal enterprise is a component of a municipal organization, and it is remarkable that local government legislation applies to its activities (Kuoppakangas 2014). These enterprises are not legally independent from the municipalities but register the accounts independently; they act like market-based organizations even if they do so in the quasi-markets. Traditionally, the activity of these companies has been concentrated in the water and energy sectors; currently, they are also privileging the healthcare sector. It has been considered that these companies have advantages in terms of transparency, decision-making, service provision and finances in publicly owned organizations, as well as downsizing of the bureaucracy vis-à-vis the traditional public local administration.

4 New Ventures Between Private and Nonprofit Organizations

Under the umbrella of the fourth sector, several new entrepreneurial ventures are emerging between private and nonprofit organizations as described as follows.

4.1 Social Enterprises

According to the Social Enterprises Alliance (SEA 2020), these enterprises span the spectrum of nonprofit to for-profit entities. Social enterprises are not silver bullet, but

they are a promising approach to fulfilling unmet needs and fostering the triple bottom line (Elkington 1998) because these businesses are simultaneously seeking profits, social impact, and environmental sustainability. We have identified four general social enterprise models:

- Opportunity employment: Entrepreneurial ventures that employ people who have significant barriers to mainstream employment such as people with disabilities
- Transformative products or services: Businesses that create social or environmental impact through innovative products and services
- Donate back: Organizations that contribute a portion of their profits to nonprofits that address basic unmet needs
- One-for-one movement: Business guided by the principle of one unit sold, one unit donated to someone in need (Sánchez-Hernández 2015)

4.2 The Social Cooperative Model

The traditional cooperative movement is growing, evolving, and expanding its branches creating new social models (Borzaga 2001). Cooperatives are first and foremost mutual interest enterprises, owned and democratically controlled by their members for their own noncapitalist interests. The new social cooperative model usually results from a move of mutual interest organizations toward a behavior giving more importance to the general interest. A good example is the case of short-circuit agricultural cooperatives, jointly created by producers and consumers of organic food. Another example is the renewable energy cooperatives, where members' interest is combined with environmental goals (Defourny and Nyssens 2017).

4.3 Faith-Based Corporations and B Corporations

The faith-based corporation is a relatively new concept for designing enterprises considering social responsibility as part of their legal business structure. According to the Benefit Corporation Network (2020), the statutory corporate purpose of these businesses is to create a material positive impact on society and the environment, taken as a whole, as assessed against a third party standard.

Benefit corporations are flourishing under the project called B-Corp. This movement was originally launched in the USA, but it has successfully started to spread worldwide. B-Corp is a legally recognized new corporate form of business certification awarded by a nonprofit organization called B-Lab. B-Lab was founded on the idea that the most challenging problems of society such as poverty and inequality cannot be solved by government and nonprofit organizations alone. Highlighting the power of business and vindicating the role of the private sector in society, B Corps

use profits and growth as the means to achieve the greater end of impacting positively their employees, their communities, and the environment. To date, this community includes over 3500 B Corps in 70 countries and 150 industries (Albright 2020).

One specific feature of B-Corps is that they include in their mission and statutes objectives related to corporate social responsibility apart from profit maximization. That is, these entrepreneurial initiatives are legally protected to take decisions considering the interests of all stakeholders beyond shareholders (Hiller 2013). Consequently, B-Corp firms are for-profit firms with private ownership and corporate governance and subordinated to free competition and market control, but, at the same time, B-Corps are responsible by their legal status. Thus, through innovative organizational designs and accountability mechanisms and acknowledgment of traditional businesses' weaknesses, B-Corps agree to add social and environmental goals to their economic goals (André 2012).

This movement is gaining recognition but not without criticism. There are some critics arguing that the benefit corporation form is likely to increase corporate greenwashing instead of solving social and environmental problems in the long term (André 2015), but the fact is that there are not clear evidences of such criticism and much research must be done to better understand this new social business model (Kurland 2017).

4.4 Nonprofit Enterprises

The essential characteristics of nonprofit enterprises are described in the earlier work of Hansmann (1980). The author suggested that they are barred from distributing its net earnings, if any, to individuals who exercise control over it, such as members, officers, directors, and trustees. However, they are not barred from earning a profit.

A categorization could be done according to the manner in which they are financed and controlled. Financing is characterized by donatives versus commercial sources. Nonprofit enterprises receive most or all of their income in the form of grants or donations. In terms of control, nonprofit enterprises are controlled by their patrons called "mutual" nonprofits.

Examples of nonprofit enterprises could be found in nurse care, education, or hospitals (Paula 2002). Hospitals are the most common example; in general, hospitals are nonprofit and receive income from payments made by patients either directly or through insurance plans for services served.

4.5 Community Development Corporations

Initially, community development corporations (CDCs) were regarded as organizations with a capacity to plan, develop, respond, and innovate in a context of

traditional community strategies (Shiffman and Motley 1990). Nevertheless, CDCs enlarged their scope and included economic development and social welfare objectives (Stone 1996). This approach endorses a proactive view of the social, structural, and economic aspects of community revitalization and allows to quickly solve problems and enhance community change (Baker et al. 1996). It is important to note that this kind of organizations seems to be more popular in the USA, and the literature about cases and examples in other geographies is still rare. Most of the CDCs are urban and involved in building and rehabilitating housing (Peirce and Steinbach 1987). Glikman and Servan (1998) proposed a classification for CDCs based on manageable elements such as the ability to generate and acquire resources from grants, contracts, loans, and other mechanisms and the ability to interact and work with other institutions, both within and outside the community. In general terms, the successful CDC has to have high political capacity and the ability to represent its residents credibly beyond the neighborhood.

5 Final Remarks

This chapter provides an overview of how entrepreneurial ventures serve for people expressing themselves and take part in societal processes of change. An important aspect is that such activities fall outside the traditional sectors, public, private, or nonprofit. The fourth sector is a relatively new sector that consists of for-benefit organizations that combine market-based approaches of the private sector with the social and environmental aims of the public and nonprofit sectors. To indicate new types of social entrepreneurial activities that do not neatly fall into the traditional sectors, the concept of the fourth sector has been introduced in different streams of academic research.

This chapter is the first contribution of this book that also examines trends in entrepreneurship in the fourth sector, describes specific ecosystems fostering new ventures around the world, and characterizes the most common and innovative business models, successful experiences, and paradigmatic examples.

A new wave of entrepreneurship based on social innovation has been gradually increased by the fourth sector. Its growth is accelerating the transition toward a more inclusive, sustainable, and resilient economic system. It is also promoting the creation of sustainable enterprises supported by the sustainability pillars which delivered scalable solutions to the current global challenges.

In this context, new mission-driven business and cross-sector collaborations, employee-owned firms, civic enterprises, and municipal enterprises are clearly gaining momentum. All of these can assume distinctive forms, models, and structures, which depend on the organizations' perceived opportunities to recover or build their legitimacy in addressing the main problems of society. Some difficulties showcased concern the alignment of different public and private interests, the inequality of resources, power dynamics, the spheres of market influence, cultural differences, and the consequences of communication problems and/or lack of trust.

Under the umbrella of the fourth sector, several new entrepreneurial ventures were revealed, such as social enterprises, social cooperative models, faith-based corporations, B corporations, nonprofit enterprises, and community development corporations. All of these are emerging between private and nonprofit organizations.

The fourth sector encompasses different levels of organization and stability. This is important to understand the potential stages and interfaces where more formal sectors might affiliate with the operations of the fourth sector. Due to its nature and characteristics, the fourth sector shows a high adaptation potential in order to answer to the societal needs, particularly in proximity contexts, attending the current challenges of sustainability, cohesion, and inclusion. Future research might advance comprehension of this distinctive emerging potential and governance challenges.

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