

EMERGENCE OF THE FOURTH SECTOR *Creating a Private Sector Continuum*

As a background to this Short Note, please read “The Emerging Fourth Sector” written by Heerad Sabeti with the Fourth Sector Network Concept Working Group, supported by The Aspen Institute and the W. K. Kellogg Foundation. It is published by the Aspen Institute and is available for free download at: <http://www.fourthsector.net/learn/fourth-sector>

First written in 1998, the paper was further developed and refined and then published in 2009. The concepts and issues presented are enlightening and still of much relevance today.

This Short Note highlights some points from the paper and adds on with some comments.

The public, commercial and social sectors are the three traditional economic sectors, a different way of classification from the three-sector economic hypothesis, which divides economies into primary, secondary and tertiary sectors. The public sector provides public services, the commercial sector maximises profit and the social sector maximises good.

A fourth sector has emerged, which is a hybrid of the commercial and social sectors. It is the Social Enterprise sector. What then is a social enterprise?

Muhammad Yunus, the Bangladeshi banker and economist who was awarded the Nobel Peace Prize for developing the concepts of microcredit and microfinance, has a definition for social business in his book “Building Social Business: *The New Kind of Capitalism that Serves Humanity’s Most Pressing Needs*”. He says it is “a ‘non-loss, non-dividend company’ dedicated entirely to achieving a social goal”. This means it is a company with both a social goal and a profit goal, which is not intended to benefit its owners. Elsewhere he proposes that the top-level staff of the social business should be paid at 50 to 70% below their market values, the mid-level staff at 30 to 50% discounts, and only the low-level staff will be paid market rates.

In my opinion, this is too strict a definition to apply to all social enterprises, although SE Hub falls within this definition.

I prefer the UK Department of Trade definition given in 2002: “A social enterprise is a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners.”

When SE Hub considers a social enterprise for investment, we would allow a company to issue dividends, provided the policy is that the majority of each year's profits is ploughed back into the business. However this may be a moot point as SE Hub usually invests in early stage social enterprises that are not yet profitable. If a Singapore social enterprise is already profitable, it would more likely pursue organic growth than embark on a major expansion unlike a commercial company.

SE Hub also does not require that the staff take discounted remuneration, (but of course it should be at reasonable market levels) unless the entrepreneurs themselves so desire.

The emergence of the fourth sector is waking up the commercial and social sectors. The commercial sector has been adopting social objectives and social values to some extent, but these are secondary to their profit objectives. There has been much discussion on concepts such as corporate sustainability and corporate social responsibility. Michael Porter is now advocating Creating Shared Value, which links competitive advantage with corporate social responsibility. Thus there is an emerging wave of social consciousness in the commercial sector.

The emergence of the fourth sector is also opening the eyes and changing the mindsets of social organisations. They now see that there can be better ways to do good. If a social enterprise can achieve financial sustainability, then it can do good forever. If there are sufficient profits to enable growth, then it can also do more good. Charities and nonprofits need continuing grants and sponsors to survive. But there is no denying their existence, as some social services have to be provided at below cost due to affordability issues. However, interest has been prompted to re-examine existing operations or to look at new operations that can be incorporated as social enterprises.

In a way, Creating Shared Value can be applied to the social sector too. Perhaps more accurately, I would designate the wave in the commercial sector as Creating Social Value, while the wave in the social sector would be Creating Business Value. The social enterprise wave would be Creating Social Value and Creating Business Value at the same time, right from the start.

Even the public sector is getting into the act. A wave of government initiatives is being created to facilitate and support all the emerging and growing developments.

The emergence of the fourth sector and the concurrent emergence of waves of creating values in all the other sectors are resulting in a tsunami of social consciousness and efforts.

At the same time the rippling effects are creating a continuum spanning the whole private sector. In the past we would tend to see the commercial sector, the social sector and the emerging social enterprise sector as silos. The lines

are blurring to form a continuum or spectrum of organisations. We can picture the continuum as follows:



The Private Sector Continuum



Where a particular organisation may be positioned in the private sector continuum depends on its balance between social and profit objectives and activities.

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