

# Unique Challenges and Issues Related to Fourth Sector Organizations

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*The following is an outline of a broad range of problems encountered — and created — by Fourth Sector organizations, from the point of view of the enterprises, their sources of finance, other stakeholders, the government, and the public at large. While most of these issues apply to all organizations, they present themselves in unique ways in the context of Fourth Sector organizations. A comprehensive strategy for enabling Fourth Sector activity would have to address all of these issues. This is a draft initial list intended to catalyze discussion.*

- 1. Access to finance**
  - a. Need access to all forms of financing - equity, debt, guarantees, grants, membership fees, pre-payments, etc.
    - i. Early stage
    - ii. Growth
      1. IPO
  - b. Prohibitive transaction costs of compliance when issuing securities
  - c. Finding values-compatible sources of capital
- 2. Assessment of success/performance**
  - a. How do you determine who will create the most benefits (social, environmental, economic) among multiple deals?
  - b. Sustainability of benefits (future prediction)
  - c. How you determine if you're achieving your mission?
  - d. How do you assess competence?
  - e. How do you determine if you're being socially and environmentally responsible?
- 3. Exit of stakeholders (founders, funding sources, owners)**
  - a. Sustainability of purpose, benefits, principles, culture
  - b. Liquidity
  - c. Transfer of ownership rights and control rights
  - d. Founders cashing out; entrepreneurial incentive
- 4. Attract, retain, and motivate qualified workforce**
  - a. Availability of triple-bottom-line competent workforce
  - b. Competitive compensation
- 5. Trust of stakeholders and society**
  - a. Avoiding misleading and deceptive marketing claims
  - b. Avoiding internal fraud and corruption
  - c. Distinguish between authentic vs. opportunistic branding
  - d. Overcoming cynicism of stakeholders
- 6. Sustainability of mission, values and principles**
- 7. Determining equitable distribution of benefits**
- 8. What to do with profits**
  - a. No tax deduction for donating in excess of 10% of profits
- 9. Preventing inclusive participation from degrading operational efficacy**

## Sector policy issues:

- 10. Incentivize risk-taking, entrepreneurship, innovation**
- 11. Structuring tax policy and other specialized regulation**
- 12. Assessment of performance (social, environmental, economic)**
- 13. Social and environmental externalities** (e.g. – toxicity, climate change, energy shortage, poverty/wealth distribution, equitable distribution of rewards, downward quality of life spiral)
- 14. Ensuring accountability to the public**