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## The third sector and the imperative of professionalization

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### Previous notes

A romantic idea of “doing good”, often related with philanthropic acts of wealthy people or with heroes and heroines impetuosity, or even related with charity meetings that has characterized generous actions through centuries, even the twenty century, make part of our imaginary. However, this seems to be a too naïve perspective of what is actually happening. Beyond those palliative acts – short term solutions with no real capacity to solve problems that affect people and communities –recently, we have been witnessing a growing professionalization of the civil society, leading place to an organized third sector, also named nonprofit organizations.

In fact, this sector is composed by a **diversity of organizations** dedicated to many different areas, cataloged in the ICNPO – *International Classification of Nonprofit Organizations*. Taking the portuguese scenario into account, Azevedo *et al.* have presented the general classification with several examples (Azevedo *et al.*, 2010: 25).

1. **Culture and leisure:** cultural, sports and entertainment associations, private nonprofit museums, cultural foundations;
2. **Education and research:** social solidarity private institutions, educational institutions from religious congregations, private research nonprofit institutions;
3. **Health:** social solidarity private institutions with health purposes, hospitals belonging to religious orders;
4. **Social services:** social solidarity private institutions, volunteer fire associations;
5. **Environment:** nongovernmental environment institutions; animals' protection associations;
6. **Development and housing:** local development organizations (non-public);
7. **Law, cause defense and politics:** rights defense' associations; minorities' associations;

8. **Philanthropic intermediaries and volunteerism promotion:** Food Bank, grant making foundations;
9. **International:** nongovernmental organizations of cooperation for development;
10. **Religion:** religious institutes; parish plants;
11. Business associations, trade unions, professional associations.

In order to provide a general frame, more clear, concerning the different kind of institutions, we propose to summarize the social and solidary environment:

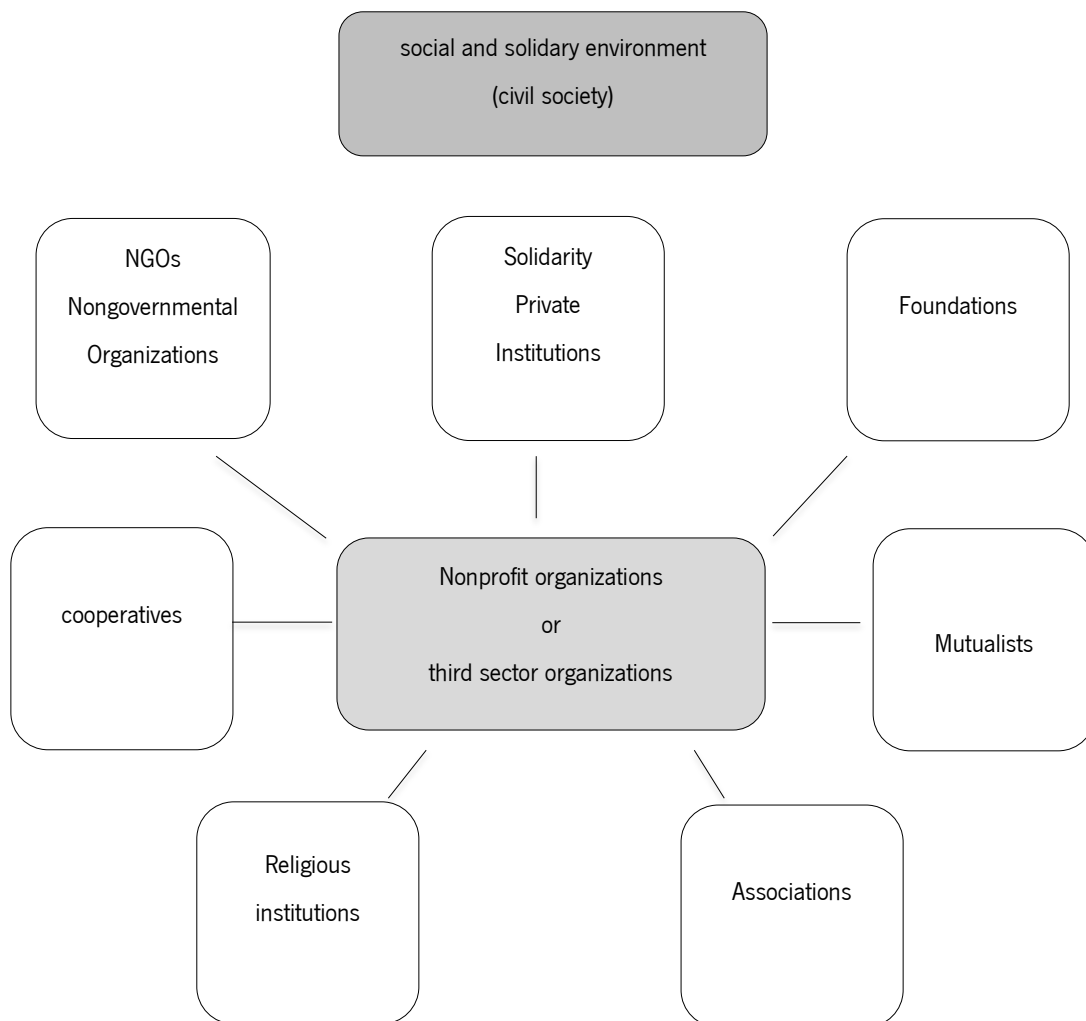


Diagram 1 – social and solidary environment (designed based on Azevedo *et al.* (2010: p.17-22)

In general, the activity of the third sector institutions is characterized by **services** (home support, healthcare, training, skills development, food or cloth provision, among many others). However,

the third sector is not just that. Many organizations "create value **defending causes and leading to social change**".

Another activity pointed by Azevedo *et al.* is the **innovation function**. "Unlike private businesses, nonprofit organizations, although they can generate income, do not have the imposition of a profit to ensure its existence. Therefore, they can take risks, invest in new ideas, new services, new approaches." They illustrate, as examples in Portugal, the Institute for Social Entrepreneurship and the Social Stock Exchange, issue that we will address a little later.

First, it would be useful to know the dimension of the third sector in Portugal. In 2006, nonprofit institutions workforce was of 185 000 (one hundred eighty-five thousand) workers, representing 4.3 percent of Portugal's total employment, producing services and goods above 5.7 billion euros and contributing with 2.7 billion euros for the national Gross Value Added (GVA)<sup>1</sup>.

A report produced in 2012 by *Johns Hopkins Center for Civil Society Studies*<sup>2</sup>, in cooperation with Portugal's *National Institute for Statistics*, in accordance with the United Nations *Handbook on Nonprofit Institutions in the System of National Accounts* underlines the importance of considering the nonprofits institutions as a distinctive sector of the economy. This fact "has become increasingly prevalent in recent years due in large part to an **increased recognition of the important role nonprofit institutions often play in the delivery of public services and in the expression of public sentiments**" Salamon *et al.*, 2012: 1).

Besides Portugal, fifteen countries did this survey, making possible to compare the scope, composition and revenue of the Portuguese nonprofit sector to its counterparts. Using the share of the nonprofit institutions employment as the measure of NPI economy, **Portugal ranks 9<sup>th</sup>**, above Brazil, Norway, Kyrgyzstan, Mexico, the Czech Republic and Thailand, but still below two other EU countries – France and Belgium (2010: 7).

However, using the contribution to the value added as the metric, the size of the Portuguese nonprofit sector is **substantially below** the international average (2.0 vs. 3.6 percent). Among the more significant activities in Portugal, the report reveals those related with **services fields**, which represents 72 percent of total NPI employment. Of this, **social assistance** accounts more than half (52 percent), education accounts for 11 percent and health care represents 7 percent. Nevertheless, the report note that a significant share of social assistance is represented by about 400 Misericordias (Holy Houses of Mercy) publicly funded catholic relief organizations that provide both social assistance as well as health services (2010: 9).

<sup>1</sup>Portugal's National Institute for Statistics data, 2006

<sup>2</sup> Report "*Portugal's Nonprofit Sector in Comparative Context*", 2012

The report concludes that Portugal presents a “nonprofit sector bigger than initially estimated, employing a significant number of paid collaborators, generates financial return from several sources and doesn’t depend of donations as first source of revenue.” (2012: 16)

### **Challenges for the third sector**

The era of generous philanthropy has led to structured civil society, a new level of demand which means **organizations devoted to causes and projects**, with **full-time human resources**, with **planning and strategies** to achieve **predetermined goals**. On the other hand, the corporate donors – private businesses – have an increasingly need of combining the cause or social project with its social responsibility strategy. This means that the challenge level increases: firms must evaluate whether the social cause is aligned with corporate values.

Furthermore, company’s choice is also driven by the **confidence** that nonprofit organizations can report on their capacity to provide social return. Thus, to capture the private corporations attention and survive in a highly competitive market, the third sector organizations need to learn good management practices and get used to the responsibility and accountability.

Organizations cannot accommodate to what has been, for many years, granted. They need to grab the future, realize what is going on around and the implication of not catch the opportunities that arise. Public funding is increasingly scarce and social capital will gain importance in ensuring the economic, financial and strategic sustainability of organizations of this nature.(Azevedo et al. 2010: 17)

In short, the increasingly frequent transfer of business practices to nonprofit organizations will be a trend. The third sector seems to boost new models. Let’s look for a specific example.

### **A case study: the Social Stock Exchange**

In Portugal, there are recent examples of social innovation, such as the adoption of a known financing system – de Stock Exchange – for social purposes. In fact, there is already a "market" where it is possible to "transact" social causes. A former brazilian advertiser - Celso Grecco, has launched the Social Stock Exchange in Brazil in 2003. On the genesis of its concept is a new model: to apply the operational principles of the financial stock exchanges to social market.

"To be quoted on the stock exchange, companies make transparency and governance commitments. Thus, they are able to attract thousands of small shareholders that apply their capital because they believe that this relationship will be profitable" Grecco, 2010: 100).

This principle has inspired Celso Grecco to launch the Stock Exchange of Brazil – called Bovespa: “nonprofit organizations from all parts of the world also need financial capital to expand. (...) They don’t have easy access to bank loans and little socio-capitalist for social projects don’t exist. But they can make commitments on transparency and governance.” (2010: 100).

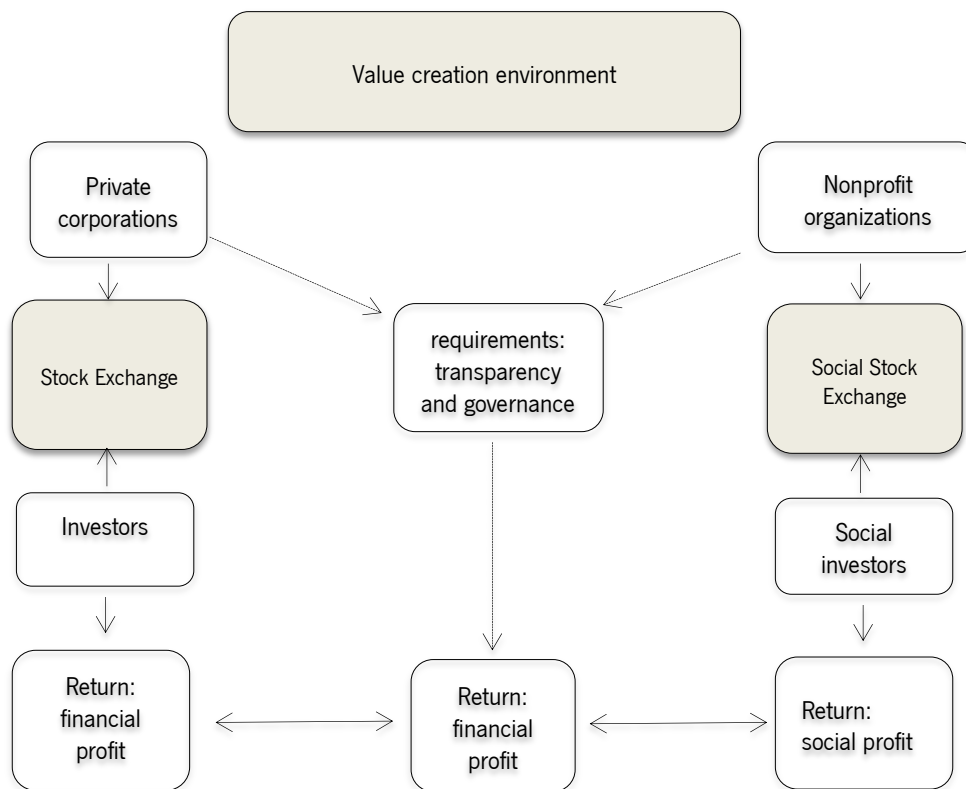


Diagram 2 –value creation environment (designed based on Grecco, 2010: p.100 -101)

The Social Stock Exchange was been recognized as unique by UNESCO. It also was adopted as a case study and recommended for other stock exchanges by United Nations, within the *Global Compact*<sup>3</sup>.



In 2008, Celco Grecco was distinguished in the Vision Awards, having received the prize from the Peace Nobel, Professor Muhamad Yunus. In December of the same year was been honored at UN headquarters in New York, for the creation of the Social Stock Exchange.<sup>4</sup>



Portugal was the second country in the world, the first in Europe, to embrace the idea. In the 2th November 2009, the Lisbon Social Stock Exchange – BVS in portuguese - was launched, with the support of Euronext Lisbon, EDP Foundation (national energy provider) and Calouste Gulbenkian Foundation.



<sup>3</sup> *United Nations Global Compact* - the United Nations Global Compact emanate ten principles to be followed by the companies that voluntarily joined the network. Those principles are related to human rights, labor law, environmental protection and anti-corruption.

<sup>4</sup> [www.bvs.org.pt](http://www.bvs.org.pt)

How does it work? The Social Stock Exchange - BVS – recreates a Stock Exchange Environment. According to the official website, its aim is “to facilitate the matching between civil society organizations carefully selected, with relevant work and proven results in the field of Education and Entrepreneurship, and social investors (donors) willing to support these organizations by purchasing their social actions.”

Taking the capital market principles into account, it is a site that ensures the transparency of the relationship between the organization and the social investor. Ensures that social investment is the most effectively as possible, with results that can be tracked at any time by social investors. Promoting social investment and social investor concepts, the Social Stock Exchange proposes that the support for civil society organizations is not seen from the perspective of philanthropy and charity, but investment that should generate a new kind of profit: **social profit**. Yet, there are a few requirements. Third sector institutions may submit proposals for quantified projects, for funding. A BVS evaluators’ team makes the screening of the projects and submit them for final approval to a committee composed by representatives of the Social Stock Exchange three donors.

The approved projects are presented on the website of the Stock Exchange and, thereafter, interested social investors will be able to give the "purchase orders" - only through Internet. To be accepted in "quotation", projects must meet a set of criteria, and submit their activity to control and audit. In terms of criteria, Grecco emphasizes three (2010: 101):

- Projects must be **acting on the causes rather than in the consequences**;
- Projects should be managed by whom that apply in the nonprofit sector, **the pragmatic view of seeking for results** that entrepreneurs apply in the business sector – they must be social entrepreneurs;
- Entities must be committed with **transparency and governance**.

BVS seems to be a clear signal that we are witnessing the rising of an imperative: the path to the survival of social institutions involves the adoption of good management principles and marketing strategies in an increasingly competitive market. This incorporates the relevance of accountability, already mentioned.

But, what kind of regulation mechanisms do nonprofit organizations have?

"Users, customers or users will become increasingly demanding, and funders - State, companies and individual donors as well. All of them will become increasingly demanding (...). The nonprofit

organizations have to be prepared. To reach that, they must be more demanding with themselves, professionalizing themselves, creating self-regulating mechanisms in the processes (...). A well-written **mission**, well-defined **objectives** and well-designed **strategies** at various levels of management, an effective **evaluation system**, a **code of conduct**, are some examples of our development proposal for nonprofit organizations" (Azevedo *et al.* 2010: 27)

According to the authors, these organizations have a special responsibility for self-regulation, because there are no mechanisms as effective as the market for the companies, and voting system for public institutions, which forces them to behave (2010:25).

However, for Grecco, even if they very innovative, the third sector organizations "are only **laboratories producing vaccines against poverty, social exclusion and against our most pressing environmental problems**" (2010: 104). For him, is up to governments, through public policy, to apply these vaccines on a large scale. "Only governments have funding conditions and scalability of the social solutions that are produced in laboratories such organizations".

### **New triangulations public sector - private sector - third sector**

Beyond the dichotomy between private and third sector, other stakeholders are invited to the resolution of social issues in the twenty-first century. In this regard, new trends in the field of social innovation seem well illustrated in the metaphor suggested by Geoff Mulgan, from *Young Foundation*<sup>5</sup>: "social change depends on alliances between what can be called "bees" and "trees". Bees are small organizations, individuals and groups that have new ideas, which are movable, fast and can pollinate. The trees are large organizations - governments, companies or large nonprofit organizations that are low in creativity but generally good in implementation, and have the resilience, roots and scale to make things happen." (Mulgan, 2010: 60)

According with Mulgan, there are interdependencies between sectors, though each has different objectives, institutional arrangements and different economic models. They are united by the "focus on social goals and the importance given to ethics, social inclusion, empowerment and solidarity" (2010: 60).

<sup>5</sup> Foundation dedicated to social innovation, nongovernmental and nonprofit, based in London.



Finally, the social innovation theme seems to be a priority in the European Union from the moment the European Commission has approved one of the Strategy Europe 2020 initiatives: the new European innovation plan, focus on the concentration of innovation efforts leading to solve issues such as climate change, energy and food security, health and an aging population (Vasconcelos, 2010: 31). "Today Europe needs to mobilize the collective creativity (...) creating new models of service delivery to address social challenges (...) including aging, youth unemployment and the reduction of carbon emissions" (2010: 31,32).

In this transition period, Vasconcelos questions about the state's role "in a world where the logic of the 'command and control' is increasingly replaced by the expectation of collaboration, collective creation and participation of citizens and civil society?" (2010: 32). Answering to its own question, he believes that social innovation is in responses that "mobilize different groups (public, private and nonprofit organizations), involve users (co-creation) and create undeniable social value" (ibid: 32).

One of Vasconcelos' proposal for an agenda for social innovation involves changing the way the private sector and non-profit relate themselves. They must do it, not in logic of pure philanthropy but as partners to develop new solutions. Changing paradigms is extended to the state, which can find in private sector and in the third sector answers to the most relevant questions of our time.

Vasconcelos underline that "innovation is born of diversity, of the 'mix' of different skills and types of organizations. People from arts and design, from technology and from public sector agencies; public entities, nonprofits and private businesses, small, medium and large." (2010: 35). He also defends social innovation incubators proliferation, enabling a collaborative work for the three sectors - public, private and third sector - something that already exists in many parts of the world.

In short, we are witnessing an environment of increasing professionalization of the nonprofit sector and unprecedented partnerships between two or even three sectors.

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[www.bvs.org](http://www.bvs.org)

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