

The logic of the nonprofit sector: an organisational economics perspective

Governance continuum; governance mechanism; hierarchy; institutional choice; market; nonprofit organisation

The need to identify the distinctive logic of the nonprofit sector, recently pronounced in the literature, gives rise to the need to substantiate links between the logics of different societal sectors. This paper seeks to identify links between the logics of for-profit and nonprofit sectors from an organisational economics perspective. For this purpose, the paper reviews the conventional organisational economics view of the market/hierarchy continuum, and develops its alternative view accommodating markets, hierarchies, and nonprofit organisation. The underlying criterion of the alternative view of the continuum, and hence the link between the logics of nonprofit and for-profit sectors, is represented by the extent of commonness of interests of the interacting parties.

I. Introduction

One of the central issues in the multidisciplinary research on the nonprofit sector relates to the conceptual positioning of this sector with respect to market, state, and informal economy, involving the identification of key differences of the nonprofit sector from other sectors of the society. These differences can be identified at various levels of abstraction and depth, whereby the deepest level arguably corresponds to what may be termed the ‘logic’ of the sector, i.e., the distinctive and central principle of its operation.¹ The task of identifying the logic of the nonprofit sector has not been however universally recognized as a scientifically sound enterprise. One ground for this scepticism has been provided by the extraordinary diversity and heterogeneity of the nonprofit sector and the associated doubts whether there exists at all a ‘common core’ of organisations belonging to it.² Another ground is that ‘the shifting boundaries – conceptual, legal, political, economic and organisational – between societal sectors have always been blurred, permeable, and interpenetrated’.³ Yet another ground has been revealed by the characterisation of the nonprofit sector as an ‘intermediate area’ populated by hybrid organisations exhibiting a mixture of attributes of state, market and informal sectors.⁴

Notwithstanding these critical reservations, the existence of significant differences between organisations belonging to different societal sectors can be hardly denied. Various

1 See Wex (2004), p. 248.

2 Ibid, p. 26.

3 See Kramer (2000), p. 3; also references therein.

4 See Evers (1995); Evers et al. (2002), quoted in Wex (2004), p. 26.

aspects of comparative analysis of nonprofit, public and for-profit organisations have been addressed in numerous studies.⁵ One of synthesising results of the recent comparative cross-national research on the nonprofit sector is represented by the ‘structural-operational’ definition of nonprofit organisations offered by Salamon and Anheier.⁶ According to this definition, nonprofit organisations differ from public agencies in their private character, and differ from many private organisations in their attributes of nondistribution constraint, self-governance, and voluntary nature.

The existence of many important differences in the structure and behaviour of organisations belonging to different sectors, and hence, of many similarities found among nonprofit organisations, suggests that the logic, or the central principle, of the nonprofit sector, though it may be not easy to find, must nevertheless exist. Moreover, the attempts to identify it have not been uncommon in the literature. Two studies, which have explicitly dealt with this question, locate the logic of the nonprofit sector in the concepts of ‘associative cooperation’⁷ and ‘the commons’⁸, the latter being understood as organisations involving free and uncoerced participation, common purpose, common holdings, and social relations characterized by fairness and justice. Apparently, these formulations are basically in line with the results of other above mentioned comparative studies of private, public, and nonprofit organisations.

This essay agrees with the view that the logic of the nonprofit sector lies, broadly speaking, in the ‘associative cooperation’ aimed to achieve common purposes. However, any formulation of the distinct logic of societal sectors involves an implicit conceptual problem relating to the substantiation of links between them. For instance, whereas in the argument of Wex⁹, each of the three societal sectors exhibits its own logic – namely, ‘associative cooperation’, ‘domination’, and ‘utilisation’ – it does not become clear how these very different sectors are conceptually connected to each other. In other words, what are the links between these different types of logic? Without the proper knowledge of these links, society would appear to be a sum of its disparate sectors rather than a holistic entity. Moreover, the understanding of these links is indispensable for identifying the criteria which determine the distribution of activities across the different sectors, i.e., criteria of institutional choice.

The task of substantiating the conceptual relationships between the different logics of societal sectors is likely to be no less challenging than the task of identifying these logics themselves. The objective of this essay is to contribute to revealing these relationships by focusing on the nature of links between the nonprofit and private for-profit sectors. Since the private for-profit sector is itself composed of a variety of governance mechanisms, of which markets and hierarchies represent the most fundamental ones¹⁰, this essay will seek to disclose the attributes with respect to which market, hierarchical, and nonprofit organi-

5 See e.g. Schwarz (1979), Reichard (1988), Ronge (1988), Lohmann (1992), Schuppert (1995), Streeck/Schmitter (1996), Zimmer (1996), Wex (2004).

6 See Salamon/Anheier (1992).

7 See Wex (2004).

8 See Lohmann (1992).

9 See Wex (2004).

10 See e.g. Williamson (1975), (1985), (1996).

sation are, on the one hand, meaningfully comparable, and on the other, systematically different from each other. As the public sector remains beyond the scope of the present inquiry, hierarchical organisation considered here will refer to the private for-profit businesses rather than governments.

The argumentation offered in this essay will fall within the disciplinary boundaries of organisational economics, a branch of new institutional economic theory investigating why and how the choice of specific governance mechanisms affects economic performance. One of the key insights in the organisational economics literature, which is particularly relevant for the objective pursued here, is that the variety of possible governance mechanisms can be represented in the form of a continuum delimited by the polar mechanisms of market and hierarchy and encompassing a number of intermediate, or hybrid, mechanisms in between.¹¹ Although specific versions of this continuum may be subject to dispute¹², there are hardly any grounds to question its basic methodological message – namely, that there exist links between governance mechanisms, and these links enable the dynamic reallocation of activities across them. These links, in turn, are interrelated with the criteria according to which the whole variety of governance mechanisms can be consistently structured, and the choice of those mechanisms – exercised. This methodological message will also provide guidance to the analysis offered in this essay. The essay will proceed as follows. Section II will briefly introduce the concept of governance mechanisms playing a central role in organisational economics literature. Section III will present the conventional way of integrating various governance mechanisms into a continuum, and will discuss the difficulties associated with trying to reconcile it with the basic attributes of nonprofit organisation. Section IV will offer an alternative conceptualisation of the governance continuum which does enable this reconciliation, and Section V will discuss issues of institutional choice within this alternative continuum. Section VI contains concluding remarks.

II. The concept of governance mechanisms in organisational economics

The interest of economists to the issues of organisation of economic activity has been, in a general sense, awakened by seminal insights of Coase¹³, who argued that whether a particular transaction is organized within a firm or through the market depends on the relative costs of these alternative modes of organisation. Since then, the organisational economics literature has further extended and enriched the understanding of the significance of alternative forms of business organisation for economic performance. Within this literature, the explicit focus on comparative analysis of governance mechanisms has been particularly characteristic for transaction cost economics¹⁴ and the property rights theory

11 See e.g. Williamson (1991); Mahoney (1992); Peterson et al. (2001); Menard (2004).

12 See e.g. Powell (1990); Podolny/Page (1998).

13 See Coase (1937).

14 See e.g. Williamson (1975), (1985), (1996).

of the firm¹⁵, with governance mechanisms being broadly understood as modes of organisation within which (or with the support of which) transactions are managed.¹⁶

The governance mechanisms which have been initially investigated and comparatively analysed by institutional economists are those of markets and hierarchies¹⁷, whose principal characteristics are reliance on price-based and authority-based coordination, respectively.¹⁸ However, since the 1990s, attention has been increasingly focused on organisational arrangements which could be attributed neither to market nor hierarchical forms of governance, and have been designated as ‘hybrid’, or ‘intermediate’ forms.¹⁹ The possible examples of hybrid forms include long-term contracts, networks, franchising, collective trademarks, partnerships, cooperatives, and alliances.²⁰

Nonprofit organisation also represents an organisational mode within which transactions are managed; therefore, it can be thought of as a governance mechanism.²¹ Similarly to hybrid organisational arrangements, nonprofit organisation can be attributed neither to market nor to hierarchical governance. Its rejection of hierarchical governance directly follows from its self-governing and voluntary nature. Its rejection of price-based coordination can be established from the fact that nonprofit organisation does not represent a set of agents buying and selling something from each other, but rather presupposes that agents act collectively to achieve common purposes, as is suggested by the concept of ‘associative cooperation’²² or ‘the commons’²³. Moreover, price-based coordination is based on monetary motivation of economic agents, whereas nondistribution constraint serves to undercut this very motivation.

The incompatibility of nonprofit organisation with both market and hierarchical governance naturally gives rise to the question whether nonprofit organisation can be also considered to represent a hybrid organisational arrangement. This question, in turn, calls for a clarification of the nature of hybrid organisation focused on the following fundamental and interrelated issues: how is hybrid organisation to be principally understood? And how is it conceptually positioned with respect to markets and hierarchies? The way in which these two issues are addressed in the major studies explicitly dealing with the concept of the continuum of governance mechanisms²⁴ will be designated further as the ‘conventional view’ of this continuum and will be presented in the next section.

15 See e.g. Grossman/Hart (1986); Hart/Moore (1990); Hart (1995).

16 See Williamson (2005), p. 48f

17 See e.g. Coase (1937); Demsetz (1988); Williamson (1975), (1985).

18 Here, authority-based coordination refers to business hierarchies, but not governmental ones.

19 See Menard (2004), p. 2; also e.g. Powell (1990); Williamson (1991); Podolny/Page (1998).

20 See e.g. Menard (2004), and references therein.

21 Designation of nonprofit organisation as a governance mechanism is based on the above mentioned definition of the concept of governance mechanism. As will be demonstrated further, nonprofit organisation as a governance mechanism represents an institutional alternative to market, hierarchy, as well as a number of hybrid organisational arrangements. The concept of governance mechanism should not be confused with that of ‘non-profit governance’ which basically means the distribution of rights and responsibilities among such stakeholders as board members, management, staff, volunteers, etc (see Pfaffenzeller (2003) for an overview).

22 See Wex (2004).

23 See Lohmann (1992).

24 See e.g. Williamson (1991); Mahoney (1992); Peterson et al. (2001); Menard (2004).

III. The governance continuum: conventional view

In the transaction cost theory framework, the economic role of governance mechanisms lies in their differential ability to economize on transaction costs when applied to particular types of transactions. The relevant typology of transactions is mainly based on three criteria: asset specificity, the frequency with which transactions occur, and the degree and type of uncertainty to which they are subject.²⁵ The transaction cost economics argues that transactions characterized by high frequency and uncertainty and involving highly specific assets are most efficiently governed within hierarchical organisations; for transactions of the opposite type, market governance is most efficient; for transactions exhibiting intermediate values of these dimensions, transaction costs are minimized by hybrid governance.

According to Williamson²⁶, markets, hierarchies and hybrids differ from each other in terms of the following attributes: 1) the type of economic adaptation they support; 2) incentive intensity; 3) reliance on administrative controls. Regarding the first attribute, markets are efficient in that kind of adaptation for which ‘prices serve as sufficient statistics’, i.e., allow rapid responses to changes in relative prices. Hierarchies are efficient for the adaptation involving bilateral dependency of transactors and requiring coordinated action. Under conditions of bilateral dependency, reliance on prices alone will lead to suboptimisation represented by e.g. working at cross-purposes and strategic behaviour. Respectively, the use of hierarchical governance is suboptimal (i.e., causes relatively high transaction costs) for the situation when no bilateral dependency is involved. This can be explained by invoking the second mentioned attribute of governance mechanisms: incentive intensity. In comparison to market, hierarchical governance presupposes a looser connection between effort and remuneration, which dampens the incentives of actors occupying subordinate positions in a hierarchy to put resources to the most efficient use. In this way, hierarchy generates slack. Finally, the third attribute – reliance on administrative controls – represents a fundamental characteristic of hierarchy, is practically not relevant for market, and exhibits intermediate relevance for hybrids. Indeed, with regard to these three attributes, hybrids are really located somewhere between markets and hierarchies, which has been argued by theorists proposing the concept of continuum of governance mechanisms.²⁷

The characteristic feature of the conventional view of the continuum is that it does not allow for any independent logic of hybrid organisation, as distinct from that of markets and hierarchies. Whereas market is coordinated by prices and hierarchy – by authority relation, hybrids are thereby supposed to rely on certain combination of these two coordination mechanisms. This implies that hybrids are attributed to neither markets nor hierarchies in the sense that they do not represent ‘pure’ markets or hierarchies but rather a mixture of them. This view of hybrid organisation is evidently relevant e.g. for various

25 See Williamson (1996), p. 59.

26 Ibid.

27 See e.g. Williamson (1991); Mahoney (1992); Peterson et al. (2001); Menard (2004).

forms of vertical coordination which do in various proportions combine the coordinating functions of prices and authority relation. However it is more problematic for nonprofit organisation. The reason is that nonprofit organisation can be identified neither as a market nor as a hierarchy not because it does not represent any of these governance mechanisms in the pure form, but rather because, due to its characteristics of nondistribution constraint, self-governance and voluntary character, it rejects both of them at the same time. Consequently, nonprofit organisation does not fit into the conventional view of the governance continuum.

Apparently, this conclusion represents a deadlock point in the pursued here analysis. If nonprofit organisation is not part of the market/hierarchy continuum, then this continuum does not allow to identify the links between these governance mechanisms. On the other hand, however, there are no grounds to consider the above presented conventional view of the continuum as its only possible view. Indeed, the conventional view has been developed to analyse business transactions whereas transactions characteristic for nonprofit organisation are of a much different kind, which is reflected, specifically, in their social value orientation rather than profit orientation. Consequently, the criteria underlying the conventional view of the continuum (type of economic adaptation, incentive intensity, reliance on administrative controls) have been geared to comparison between market and hierarchical organisation rather than between market, hierarchical, and nonprofit organisation. That means, in turn, that the possibility of the continuum incorporating all three of these mechanisms depends on whether the more relevant criteria can be found. Apart from ensuring the meaningful comparability between the three mechanisms, these criteria should also recognize the existence of the independent logic of nonprofit organisation rather than treat them as a mixture of markets and hierarchies. The question however remains: what are these criteria?

IV. Toward a new conceptualisation of the governance continuum

This essay advocates the view that the criterion whereupon such an extended alternative continuum can be built is represented by the extent of common interest shared by the participants of respective governance mechanisms. The extent of common interest is understood here as the extent to which the objectives of these participants are overlapping. Though in somewhat schematic terms, it can be argued that market, hierarchy, and nonprofit organisation exhibit successively growing reliance on common interests uniting their respective participants.

Specifically, markets are based on a known antagonism of interests of buyers and sellers, since resources received by the former represent resources taken away from the latter and vice versa. Moreover, given that market is competitively organized, there is little interdependency in the levels of wellbeing of individual buyers and sellers, in the sense that, if a particular buyer or seller fails to perform his economic function, their respective partners

will not suffer too much because alternative buyers and sellers can be found²⁸. In the case of hierarchy, however, the antagonism between the interests of super- and subordinates is less pronounced than in markets; rather it is more justified to speak about agency relationships and the associated divergences of interests of agents and principals than of a polar constellation of their interests. There also exists a certain interdependency between the levels of wellbeing of super- and subordinates, in the sense that all of them belong to one organisation; if this organisation performs poorly, that will affect the well-being of all involved participants (although some participants, according to their position in a hierarchy, will be affected less than others). Nonprofit organisation, evidently, exhibit maximal reliance on common interests. Indeed, promotion of common interests, presupposed by the concepts of ‘associative cooperation’²⁹ and ‘the commons’³⁰, represents its basic objective. The commonness of interests also creates a significant interdependency in the levels of wellbeing of its participants: to the extent the interests are common, the performance of nonprofit organisation will have equal wellbeing consequences for all participants.

Therefore, whereas the conventional view of the governance continuum can be described as ‘from markets through hybrids to hierarchies’, the proposed here alternative view presupposes another sequence – from markets through hierarchies to nonprofit organisation. According to the alternative view, the logics of markets, hierarchies, and nonprofit organisation respectively lie in the low, intermediate, and high extent of commonness of interests of interacting parties.³¹ The links between the logics of these three mechanisms (and hence, of nonprofit and for-profit sector) thereby become clearly visible, as incremental changes in the commonness of interests will have implications for the institutional choice along the continuum. Evidently, the alternative view of the governance continuum cannot be subject to the same criticisms as the conventional view. On the one hand, it accommodates all relevant governance mechanisms (markets, hierarchies, nonprofit organisation) enabling meaningful comparisons between them with respect to the commonness of interests of interacting parties. On the other hand, it does allow for the independent logic of nonprofit organisation, because, being based on the high degree of commonness of interests, nonprofit organisation can no longer be seen as a mixture of markets and hierarchies which are respectively based on low and intermediate degrees. Evidently, hybrid organisational arrangements which combine the use of coordinating functions of prices and authority relation and are located between markets and hierarchies in the con-

28 Minimal reliance on common interests should not, however, be interpreted as the absence of such interests. Both parties to the transaction may have common interests in maintaining the regime of property rights in which they operate or developing an effective trading infrastructure.

29 See Wex (2004).

30 See Lohmann (1992).

31 Here it should be noted that the criterion of commonness of interests is quite general in itself and therefore applicable not only to nonprofit organisation but also to any other organisational arrangement composed of agents collectively pursuing their common interests. Possible examples of such arrangements include mutual self-help groups, cooperatives, associations, strategic alliances, etc. Depending on specific contents of the underlying common interests, the proposed here alternative conceptualisation of the continuum might accommodate them also. These extensions of the alternative conceptualisation of the continuum arguably represent stimulating directions of further research; this essay, however, is focused on those common interests which are relevant for nonprofit organisation and its comparison to markets and hierarchies.

ventional view of the continuum, preserve this positioning also in the alternative view, thereby being clearly different from nonprofit organisation. The basic distinctions between the concepts of the conventional and alternative governance continuums are summarised in Table 1.

<i>Characteristics</i>	<i>Conventional continuum</i>	<i>Alternative continuum</i>
<i>Sequence of governance mechanisms</i>	Market – hybrids – hierarchy	Market – hybrids – hierarchy – nonprofit organisation
<i>Criterion of governance continuum</i>	Type of economic adaptation, incentive intensity, reliance on administrative controls	Commonness of interests
<i>Conceptualisation of the problem of economic organisation</i>	Correct matching between transactions and governance structures	Correct matching between the commonness of interests which is actually perceived by the interacting parties and which is foreseen by the adopted governance mechanism

Tab. 1: The comparative characteristics of the conventional and alternative governance continuums

Source: own presentation

The concept of the commonness of interests as a criterion of a governance continuum is not explicitly present within the conventional transaction cost theory, but it is arguably present there implicitly. The conventional theory has emphasized the conflict of interests of transacting parties and the differential capacities of various governance mechanisms to mitigate that conflict. Specifically, greater values of asset specificity, frequency and uncertainty all tend to escalate the conflict of interests if market governance is used; the internalisation of the involved transactions into a hierarchical organisation serves to reduce the conflict, and it is this reduction which explains how hierarchical organisation is able to economise on transaction costs. The conflict of interests, though, represents a theoretical inverse of the commonness of interests which is emphasised here. The explicit recourse to the commonness of interests rather than to its more conventional inverse is warranted by the need to extend analysis to nonprofit organisation whose economic goal consists not of mitigating conflicts among its stakeholders but of enabling them to pursue common interests. Yet, the differences in accentuating the commonness and the conflict of interests do not affect the logical sequence of governance mechanisms which may be equivalently conceptualised either in the order of increasing commonness or decreasing conflicts of interests.

V. Institutional choice within the alternative continuum

The concept of the governance continuum presupposes not only identification of a logical foundation for a sequence of governance mechanisms, but also substantiation of the determinants of institutional choice, i.e., of regularities which determine the relative efficiency of these mechanisms in particular situations. In transaction cost theory, the determinants of institutional choice are represented by transactional attributes, such as asset specificity, frequency, and uncertainty. These attributes determine which governance mechanisms are likely to be most efficient for a particular business transaction. At the same time, these attributes are much less relevant for transactions characteristic for non-profit organisation since contributions of volunteer labor and financial resources to non-profit firms as well as utilisation of those resources by these firms for socially valuable purposes may not be meaningfully characterized by the degree of their specificity, frequency, and uncertainty. Consequently, the proposed here alternative conceptualisation of the governance continuum must be based on other determinants of institutional choice. As might follow from the argumentation so far offered, the relevant determinant in this case would be the actual perception of the extent of common interests among interacting agents by these agents themselves. Thus, interestingly, in the alternative view of the continuum, the logical foundation of the continuum and the determinant of institutional choice are essentially similar, in contrast to the conventional view³². In the alternative view, the problem of economic organisation can be conceptualized as ensuring that the extent of common interest perceived by interacting agents is adequately reflected in the extent of common interest foreseen by the adopted governance mechanism. Just like in standard transaction cost theory transaction costs are economized by correct matching between transactions and governance structures, the alternative view of the continuum suggests that they are economized by avoiding inconsistencies between the actually perceived extent of common interests in a particular transaction and its extent presupposed by the governance mechanism actually employed.

Two types of such inconsistencies are theoretically possible: 1) when the actually perceived extent of common interests exceeds its extent presupposed by the governance mechanism, and 2) when this relationship is converse. Both of these inconsistencies have been well examined in the organisational economics literature with respect to business transactions (if in a somewhat different vocabulary). In the business context, the inconsistency of the first type means e.g. that arms-length contracting is used to govern a transaction for which more coordinated governance would be more efficient, e.g. due to high asset specificity. Transaction costs resulting from this inconsistency would generally cause failure to undertake relationship-specific investment, either in the form of substituting specific assets by generic ones, or foregoing certain investments at all³³. The incon-

32 As indicated above, in the conventional view, the logical foundation of the continuum is represented by the type of economic adaptation, incentive intensity, and reliance on administrative controls, whereas the determinants of institutional choice include transactional attributes, such as asset specificity, frequency, and uncertainty.

33 See e.g. Williamson (1985), (1996); Klein/Crawford/Alchian (1978); Hart (1995).

sistency of the second type in the business context means that more coordinated governance is used for transactions which do not in principle require it, e.g. due to insignificant asset specificity. In this case, corresponding transaction costs would generally give rise to weakening of incentives and excessive organisational slack.³⁴

Essentially the same adverse consequences of these two inconsistencies can be identified if the analysis is extended to include nonprofit organisation. Here, efficiency losses caused by the inconsistency of the first type – i.e., the use of markets and hierarchies instead of nonprofit organisation – have had fundamental significance for the development of economic theory of nonprofit organisation, since their existence essentially provides the answer to the basic question of why this organisation is necessary in a market economy. According to the basic theories, these losses mainly relate to underprovision of public goods³⁵ and inadequate provision of trust goods³⁶. The inconsistency of the second type refers to hypothetical situations where particular activities which could be efficiently governed by markets and hierarchies are nevertheless organized on nonprofit basis, again with resulting weakening of incentives and excessive organisational slack.³⁷

This argumentation implies that given that the logic of nonprofit organisation lies in ‘associative cooperation’³⁸ or ‘the commons’³⁹, the transaction cost minimizing governance mechanism for implementing this logic is represented by nonprofit organisation. If the degree of commonness of interests of interacting parties is not high but intermediate or low, then corresponding transaction cost minimizing governance mechanisms are those of hierarchies or markets, respectively. Whereas the study of institutional choice in the for-profit sector has been one of central themes in the general organisational economics literature, this issue arguably has attracted relatively little attention in the literature specifically dealing with economics of nonprofit organisation, although it seems to be quite relevant, especially for those sectors where for-profit and nonprofit firms co-exist.

VI. Concluding remarks

The proposed here argumentation has been inspired by the insights that the distinctive logic of the nonprofit sector can be characterized by the concepts of the ‘associative cooperation’⁴⁰ or ‘the commons’⁴¹, both of which can be safely generalized as relating to the collective pursuit of common interests. Here it has been suggested that this distinctive logic not only draws a boundary separating the nonprofit sector from other sectors but can be also considered as a bridge allowing to see links between them. The importance of these links is twofold: they enable dynamic reallocation of activities across the sectors,

34 See e.g. Williamson (1985), especially chapter 6.

35 See Weisbrod (1977).

36 See Hansmann (1980); Ben-Ner (1986).

37 See e.g. Rose-Ackermann (1996), p. 717.

38 See Wex (2004).

39 See Lohmann (1992).

40 See Wex (2004).

41 See Lohmann (1992).

i.e., provide for constant institutional change, and they underlie the holistic logical structure in which all of the sectors can be systematically integrated, i.e., positioned with respect to each other in a logical way.

This essay has focused on the analysis of links only between the nonprofit and for-profit sectors. From an organisational economics perspective, this meant constructing a continuum composed of market, hierarchical, and nonprofit organisation, as well as identifying the determinants of institutional choice within this continuum. The criterion on the basis of which such a continuum can be built has been identified as the extent of commonness of interests of the interacting parties, and the major determinant of institutional choice – as the way in which this extent is perceived by the interacting parties themselves. The proposed continuum stretches from market, through hierarchical, to nonprofit organisation, as the relevant extent of commonness of interests is progressively increasing along this sequence. These governance mechanisms are therefore interlinked by their reliance on the above mentioned criterion.

A further challenge in this research is to incorporate the public sector in the analysis. This may possibly require disciplinary approaches other than organisational economics, or identification of several classificatory criteria rather than one, giving rise to multidimensional versions of the continuum. In any case, however, investigation of links between societal sectors represents a necessary supplement to identification of differences between them and will undoubtedly improve our understanding of the role of the nonprofit sector in the structure of contemporary society.

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