

Diskussionspapier des  
Instituts für Organisationsökonomik

11/2022

**Non-Profit Networks**

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Discussion Paper of the  
Institute for Organisational Economics

**Diskussionspapier des  
Instituts für Organisationsökonomik  
11/2022**

November 2022

ISSN 2750-4476

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**Abstract**

Non-profit organisations and networks are both special. They demand and facilitate trust and can be combined.

JEL Codes: D02, D85, L14, L31

Keywords: Network, Non-Profit Organisation, Opportunism, Sharing, Trust

# Gemeinnützige Netzwerke

## Zusammenfassung

Gemeinnützige Organisationen und Netzwerke sind beide besonders. Sie erfordern und schaffen Vertrauen und lassen sich kombinieren.

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# Non-Profit Networks\*

## 1. Introduction

Non-profit organisations (NPOs) or more exactly not-for-profit organisations are special. The same holds true for networks. Both have much in common, especially concerning trust. Non-profit networks combine their strong points. They can substitute or compliment traditional NPOs.

This discussion paper starts with a characterisation of non-profit organisations in Chapter 2 and of networks in Chapter 3. Chapter 4 is about trust as a common base of both. Chapter 5 looks at different types of non-profit networks. Chapter 6 concludes and gives an outlook.

## 2. Non-Profit Organisations

There are many definitions of NPOs.<sup>1</sup> According to Badelt (2002) the following characteristics are most relevant: NPOs have a minimum of formal organisation. They are private and non-governmental. NPOs do not distribute profits; although profits are allowed, they are not the main aim of NPOs. They have self-management, autonomy of decisions, and voluntariness. Finally, they are neither households nor families nor clans.

NPOs exist alongside for-profit companies and public enterprises. Their specific advantage (and at the same time disadvantage) compared to for-profit companies is the lack of the profit motive. Incentives for hard, but also for selfish work are lower in NPOs. NPOs prosper where performance measurement is too expensive<sup>2</sup> and non-monetary motivation is high.<sup>3</sup> NPOs are more flexible, autonomous, voluntary and often cheaper than governmental agencies. Conversely, NPOs and their sourcing are more insecure than that of public firms.

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\* This discussion paper is based on the slides of a lecture at the Vienna University of Economics and Business Administration on 12 October 2004. The references and comments in the footnotes have now been added.

<sup>1</sup> Cf. Zimmer (2018).

<sup>2</sup> Cf. Easley/O'Hara (1983).

<sup>3</sup> Cf. Dilger (2022).

### **3. Networks**

There are many definitions of networks, too.<sup>4</sup> Rockart/Short (1991) characterise them by shared goals, shared expertise, shared work, shared decision making, shared timing and prioritisation, shared responsibilities and finally shared recognition and rewards. All this sharing is done by independent and at the same time interdependent entities.

There are different kinds of networks, e.g. stable as well as strategic networks, dynamic networks and internal networks. Networks are not just a hybrid between market and hierarchy, but an independent third form of coordination (cf. Adler 2001). Transaction costs are lower in networks, but they are more vulnerable to opportunistic behaviour.

### **4. Trust as a Common Base**

NPOs and networks need trust. Trust is also a vague term with many definitions.<sup>5</sup> Trust “is a subjective, aggregated, evolving and confident belief, based on a body of evidence, that the other’s likely actions will have positive consequences for oneself, leading to a willingness to render oneself vulnerable to the other party” (Dietz 2002, pp. 7 et seq.). Trust overcomes opportunism by definition.<sup>6</sup> The problem is to establish and maintain trust.

NPOs do not only require, but also facilitate trust. Without the authorisation to appropriate gains there is positive self-selection of more trustworthy persons. For any given person the incentives to behave opportunistically are reduced. Trust is mostly reciprocal, giving trust enhances the chance to receive it. Networks are also trust-enhancing with their informal relations. Therefore, NPOs and networks are a good combination. If one member exploits the others, they try to get rid of this member and cooperate without it. If this is not possible, the NPO or network may fail such that only those without too much opportunism survive.

### **5. Types of Non-Profit Networks**

A network of NPOs is only one possible form of non-profit networks. An informal network of natural persons can be a substitute for an NPO because networks do not need any formal organisation. For-profit companies may build a network for non-profit purposes or at least

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<sup>4</sup> Cf. Moretti (2017) for network organisations. The concept is more general and used in other disciplines as well, cf. Newman (2018).

<sup>5</sup> Cf. Dilger/Groß (2005).

<sup>6</sup> That is why Williamson (1993) thinks that trust is an elusive concept at least in economics.

only very indirectly profitable ones. Different kinds of units like NPOs, commercial and public firms as well as natural persons are able to form mixed networks. Finally, an internal network can exist inside of an NPO.

## 6. Conclusion and Outlook

NPOs as well as networks are distinctive. Both of them demand trust. Both are also able to raise trust. A combination of their good qualities is expedient. A non-profit network is normally not an NPO by itself. Non-profit networks are an alternative for the growing number of people who dislike formal organisations. Research on them is just beginning.<sup>7</sup>

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<sup>7</sup> This was certainly true in 2004, but still appears to be the case.

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