11 Interorganizational cooperation between non-profit organizations: a relational analysis

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Introduction

Recent years witnessed a notable increase in cooperative arrangements between not-for-profit organizations. Yet, despite the richness of the existing alliance literature in the for-profit sector, interorganizational cooperative arrangements between not-for-profit organizations are still understudied and undertheorized. This chapter addresses this gap and develops a theoretical background for further theoretical and empirical work on interorganizational cooperation between not-for-profits. We emphasize that for not-for-profits, unlike for-profits, neither inputs nor outputs are simple transactions, making both their needs and the boundaries they need to manage more complex. Importantly it is not the reasons of cooperation or the way they engage in those arrangements that differ; it is the mechanisms behind those arrangements. In explaining these mechanisms, we explore what a not-for-profit organization is and in which dimensions these organizations differ from their for-profit counterparts; why they might seek cooperative arrangements with other not-for-profits; with whom they are likely to engage in cooperative relationships; and how integrative these arrangements are likely to be. Overall, this study highlights the differences in motives and activities of not-for-profit organizations, and the need to develop additional theories to address those differences in explaining interorganizational arrangements between them.

In 2003, La Bourguette,[1] a 7 million euro not-for-profit organization (NFPO) that takes care of autistic children and adults in Southern France, celebrated the thirtieth anniversary of its foundation. The year 2003 also marked the launching of an innovative partnership initiative by Georges Soleilhet, the manager of La Bourguette for these 30 years. The objective of this initiative was to promote cooperation between NFPOs taking care of autistic people in France and in other European countries. Most of these NFPOs were facing similar operational problems and financial pressures. However they were looking for solutions on their own and did not seem willing to cooperate. '[NFPOs] taking care of autistic people are often too reluctant to cooperate. They do not want to lose their autonomy.

I do not want La Bourguette to lose its autonomy either. But I want organizations offering similar services for autistic people to share their know-how and to help each other whenever it is possible. We all have the same objective: helping autistic people. If we really want to do so, we should be able to cooperate', explained Mr Soleilhet. In November 2004, 15 French and European NFPOs taking care of autistic people had joined the partnership. In order to improve their services without losing their independence, they committed to sharing their resources and facilities, as well as information about donations and especially about public grants, whenever possible.

La Bourguette is not the only NFPO under pressure, nor is Mr Soleilhet the only manager in search of solutions. In fact most, if not all, NFPOs face similar financial and operational struggles. They largely depend on corporate or private donations and government grants, and as these sources of income are seldom guaranteed in the long run, they rarely have steady cash flows to ensure uninterrupted continuation of their activities.

In the last 20 years some significant changes in the not-for-profit landscape have made it even harder for NFPOs to raise funds. While the total amount of donations has increased (*The Economist*, 2004), the availability of some funds, for example corporate giving as a percentage of profits, has sharply decreased (Porter & Kramer, 2002), and the number of NFPOs has more than doubled (Wiesendanger, 1994; *The Nonprofit Almanac*, 2001) over the same period. As a result, competition for donations among NFPOs has significantly intensified. Government and regulatory agencies have become more demanding in terms of efficiency (Austin, 2000). Public policy shifts have taken place that have reduced funding or changed the way in which NFPOs receive grants (Harris et al., 2002). Donors also now put more pressure on the NFPOs to which they make donations: some put strict conditions on how and for which purposes their donations must be spent (Strom, 2004), whereas others, often dubbed venture philanthropists, demand a more efficient, business-like handling of operations (Byrne et al., 2002).

Interorganizational cooperative arrangements, like the one initiated by Mr Soleilhet of La Bourguette, have emerged as one of the potential responses to these mounting economic, regulatory and social pressures. Even though small-scale cooperative arrangements, like joint programming, have been pursued for a long time, both the quantity and quality of cooperation between NFPOs has dramatically changed over the last two decades. There have been more cooperative arrangements between NFPOs, especially in the late 1990s and early 2000s, than there were ever before. Today, not-for-profit executives regard these arrangements as an institutionalized practice that is likely to become even more widespread in the near future (Kohm & La Piana, 2003). Moreover, and importantly, these arrangements are notably

different in nature, as they are much more significant for the parties involved, in terms of resources and strategic centrality (Austin, 2000), and more integrative in nature (McLaughlin, 1998; Kohm & La Piana, 2003).

As such cooperative relationships have become more and more prevalent and significant in practice, a number of practitioner-oriented works have been published in the recent years (see for example Arsenault, 1998; Bartling, 1998; McLaughlin, 1998). However scholarly attention to these interorganizational arrangements between NFPOs has been limited to a few noteworthy case-based studies (Kohm & La Piana, 2003; Yankey et al., 2001), and to our knowledge none of the existing work has yet explored the underlying mechanisms of interorganizational cooperation between NFPOs.

This lack of attention to interorganizational cooperation between NFPOs can be partially attributed to the scant attention paid to the not-for-profit sector in general in management research, despite the significant amount of assets controlled and contributions made by NFPOs.[2] Most of the few existing management studies that take NFPOs into account have focused on the impact of corporate philanthropy on for-profit organizations (FPOs) (for example Keim, 1978; Fry et al., 1982; Burt, 1983; Galaskiewicz & Burt, 1991), or on comparative aspects in industries where for-profit or not-for-profit organizations coexist (for example Rushing, 1974; Carper & Litschert, 1983; Nielsen et al., 1985; Baum & Oliver, 1996). Isolated examples exclusively focusing on NFPOs (for example Nutt, 1984; Golden-Biddle & Rao, 1997) are restricted in their focus, and ignore the network of relationships in which NFPOs are embedded. A notable exception is a prominent and very detailed empirical study of organizational change in the not-for-profit sector by Galaskiewicz and Bielefeld (1998).

The fact that interorganizational cooperation between NFPOs is a relatively recent phenomenon can also explain the lack of scholarly attention that it has received so far. In contrast, interorganizational cooperation among for-profit organizations has been extensively studied by management scholars (see for example Osborn & Hagedoorn, 1997). Notably, especially in the recent years since the mid-1990s, a complementary stream of research has emerged focusing on cooperative arrangements between for-profit organizations and non-profit organizations (Andreasen, 1996; Austin, 2000) and between for-profit organizations and public actors, for example national governments, UN agencies (Rangan et al., forthcoming). Revived interest in corporate social responsibility has also contributed to the emergence of valuable research at the intersection of the for-profit and the not-for-profit sectors. Yet these studies do not tackle the issue of interorganizational cooperation between NFPOs, which requires different expectations, processes and techniques than those involving FPOs (McLaughlin, 1998). Hence we still know very little about this phenomenon.

In this study we develop a theoretical background for further theoretical and empirical work on interorganizational cooperation between NFPOs. In doing so, we pose some fundamental questions and provide brief and precise answers to them. More explicitly, we explore what an NFPO is and in which dimensions NFPOs differ from their for-profit counterparts; why they might seek cooperative arrangements with other NFPOs; with whom they are likely to engage in cooperative relationships; and how integrative these arrangements are likely to be. The answers we provide in the following pages emphasize some fundamental differences and similarities between FPOs and NFPOs. They are very different as they are characterized by different sources of income (donations versus revenue accrued following the sale of goods and/or services) and by different objectives (resources enhancement versus profit or shareholder value maximization). Yet they are very similar in the way they engage in cooperative arrangements in terms of potential benefits, partner selection and mode of integration. Still, while the ends are usually similar, the means that lead to those ends are not always necessarily so. An overarching conclusion of this study is the observation that for NFPOs, unlike FPOs, neither inputs nor outputs are simple transactions, making both the needs of NFPOs and the boundaries they need to manage more complex.

Not-for-profit organizations

Not-for-profit organizations (NFPOs) are privately controlled, tax-exempt organizations within which no one owns the right to share any profit or surplus (Weisbrod, 1988). These organizations thus have three defining characteristics. First, they are free from tax burdens, and frequently donations to them are tax deductible. Second, they are privately controlled such that donors, who fund these organizations, often do not have control rights over them at all (Glaeser, 2002). Even though frequently their boards are partially composed of donors, and boards naturally do have control rights, they are often not elected and are not ultimately accountable to shareholders and donors (Steinberg, 1987). Further, NFPOs are never subject to takeovers (Frech, 1980). As a result, managers of NFPOs have much greater autonomy than their for-profit counterparts (Glaeser, 2002: 3).

Third, and importantly, NFPOs are subject to a non-distribution constraint that prohibits the distribution of residual earnings to individuals who exercise control over the organization, such as officers, directors or members (Hansmann, 1980, 1987). All residual earnings must either be retained by the NFPO or given to other NFPOs (Hansmann, 1980; Simon, 1987). It is important to note that the non-distribution constraint prohibits NFPOs from distributing any profit to their stakeholders, but it does not prohibit them from earning profits. In the health-care industry for example, both

for-profit and not-for-profit hospitals make profits (Davis, 1972). Hence the term 'non-profit' is a misnomer as NFPOs usually do make operating profits. For this reason, we prefer the term 'not-for-profit organization' to the term 'non-profit organization' that is usually used in the literature.

The members of the not-for-profit sector are not homogeneous in their interests as they can operate to serve private as well as public interests. Neither are they homogenous in their sources of income. Some NFPOs derive their income primarily or exclusively from sales of goods and services – either from mission-unrelated commercial or ancillary activities or from program service revenues – whereas others receive a substantial portion of their income in the form of donations (Weisbrod, 1998). In other words, the resources (inputs) they use to produce goods and services (outputs) come from either donations or sales.

This heterogeneity in interests and sources of income leads to the emergence of different kinds of NFPOs, which can be classified into three main categories: philanthropic organizations, private not-for-profit commercial enterprises and membership groups (Rudney, 1987). Philanthropic organizations are privately controlled, tax-exempt organizations to which donor contributions are tax deductible. Organizations helping victims of terrorist attacks (for example SOS Attentats in France), domestic violence (for example Refuge in the UK), or child abuse (for example PCA America in the US), and organizations helping people affected by leprosy (for example The Leprosy Mission International) are examples of philanthropic organizations. Although philanthropic organizations provide a wide range of services, they are most heavily concentrated in five sectors of activity: the health sector, the educational sector, the cultural and recreational sector, the social service sector and the religious sector (Rudney, 1987).

Private not-for-profit commercial enterprises differ from philanthropic organizations in their funding patterns and outputs. They provide goods and/or services directly to consumers who are required to pay some fees or dues for the output (Galaskiewicz & Bielefeld, 1998). Private not-for-profit hospitals are examples of not-for-profit commercial enterprises. Membership groups differ from both philanthropic organizations and private not-for-profit commercial enterprises in their overall objective. Whereas philanthropic organizations and private not-for-profit commercial enterprises provide services that benefit the people outside the organization (Weisbrod, 1988), membership groups are organized largely to confer mutual benefits on their members. Sport clubs and professional associations are examples of membership groups. In the frame of this chapter we only focus on philanthropic NFPOs, which constitute the great majority of all NFPOs.[3] Whenever we refer to NFPOs, we refer to this specific category.

While there is a consensus regarding what an NFPO is, NFPOs' behavioral drivers have been debated in the literature. Following the neoclassical tradition, many scholars use models that maximize different objectives to describe and predict the behavior of NFPOs. As summarized by Steinberg (1987), these models postulate different objectives for NFPOs, such as enrollment maximization, service maximization, maximization of the quality and/or quantity of the service produced, budget maximization, medical-demand maximization or expense-preference maximization. These models implicitly assume that the NFPOs minimize costs. Yet overall what NFPOs maximize is still a significant and difficult question (Glaeser, 2002).

Some researchers, on the other hand, argue that whatever objectives NFPOs may pursue with respect to quality or quantity of services (outputs), they are inherently subject to productive inefficiency (that is, failure to minimize costs) owing to the absence of ownership claims to residual earnings (Alchian & Demsetz, 1972; Hansmann, 1980, 1987). According to this stream of research, the absence of property rights in NFPOs, due to the nondistribution constraint, would reduce boards' and managers' incentives to ensure efficiency. Even though inherent inefficiency of NFPOs is a widely held belief, there is little empirical evidence supporting it (Kohm & La Piana, 2003).

These different approaches to NFPOs' behavior adapt conventional models of firms' behavior to the specific case of NFPOs. They assume that there is an objective function that describes the behavior of NFPOs. Such an assumption is oversimplistic because NFPOs do not pursue one single objective: they pursue heterogeneous objectives, such as service quality and quantity, budget maximization and growth, and survival (DiMaggio, 1987).

In addition, most of these approaches assume that NFPOs' behavior is driven by objectives related to the services (outputs) they offer. However donations constitute the primary source of income for many NFPOs, and they often compete with each other for donations (Rose-Ackerman, 1982; Feigenbaum, 1987). Thus competition for donations is frequently NFPOs' primary concern, as for example a recent study of 90 NFPOs in southeastern Michigan (Reisch & Sommerfeld, 2001) shows. Thus objectives related to resources (inputs) also drive NFPOs' behavior (Pfeffer & Leong, 1977; Provan et al., 1980). In this chapter, following this line of research, we consider that NFPOs' behavior is heavily driven by 'resource enhancement' (Galaskiewickz & Bielefeld, 1998). We assume that most NFPOs seek to maximize the resources they get (inputs) in order to achieve better their mission. We do not regard resource enhancement as the sole driver of NFPOs' behavior, but as being one of the most important ones.

Interorganizational cooperation between NFPOs

'Interorganizational cooperation' herein refers to voluntary arrangements between not-for-profit organizations for exchange, sharing and co-development of resources, services and programs, which may or may not require a change in these organizations' corporate structure. These arrangements differ from each other in at least two basic dimensions. First, they may differ in the number of NFPOs involved. It might be the case that only two NFPOs cooperate, whereas in other cases a larger number of NFPOS might be involved in a single cooperative arrangement. United fund-raising organizations, like United Ways, JustGive.org web portal or its French equivalent Aidez.org, are good examples of arrangements involving multiple organizations. They bring together many NFPOs, thereby enabling donors to donate to the united organization which then distributes funds among its members.

Second, these arrangements may also differ in the degree of structural change that they require from participating NFPOs. Some forms of interorganizational cooperation may need not-so-significant arrangements in the organizational structure of participating NFPOs (for example joint programming partnership), whereas other forms may require some level of structural integration (for example joint ventures). Yet these differences not withstanding, the incentives that lead NFPOs to cooperate and the mechanisms by which they select potential partners are fundamentally similar across different cooperative arrangements between NFPOS. In the following section we lay out the potential benefits of cooperation between NFPOS, which addresses the 'why' dimension of interorganizational cooperation. Then we turn to the relational factors affecting the likelihood of cooperation between NFPOs, thereby addressing the 'with whom' dimension of interorganizational cooperation.

Potential benefits of cooperation for NFPOs

Increasing efficiency Interorganizational cooperation may help participant NFPOs to increase their efficiency. Even though NFPOs have traditionally been portrayed as being less efficient than their for-profit counterparts (Hansmann, 1987), it does not imply that they should not aim at efficiency. In fact they take efficiency considerations into account especially when the scarcity of resources increases as a result of intensified competition among NFPOs (Steinberg, 1987). Inefficiencies may arise from the lack of managerial incentives to pursue efficiency, as mentioned earlier, or from high overhead expenses, which are particularly salient when fixed costs are very high. These inefficiencies can be – partially – eliminated by cooperative arrangements such as joint administration, joint fund-raising

activities, joint programs or joint purchase of equipment and facilities (Kushner, 1996; McLaughlin, 1998). This type of arrangement frequently helps NFPOs to share managerial and operational resources, thereby enabling them to reduce their operating costs through elimination of duplicated services and/or through economies of scale in procurement and services (Austin, 2000; Kohm & La Piana, 2003).

Reducing resource competition Interorganizational cooperation may serve to reduce overall competition by letting participants behave less aggressively in fund-raising. As mentioned before, NFPOs primarily compete for donations, as their survival crucially depends on the amount of donations they get from the limited pool of donors. When competition for donations is high, NFPOs are forced to devote more resources to fund-raising activities as those funds get scarcer (Rose-Ackerman, 1982). This is indeed a socially undesirable outcome, as a larger part of donations is then diverted to fund-raising instead of being used to provide services. Coordination between NFPOs reduces resource competition, which ensures a better use of resources as NFPOs share the costs of fund-raising. It is for this reason for example, and due to concerns about an increase in the number of NFPOs involved in similar activities, that the Greater Milwaukee Committee, a group of major donors, issued a report in 1990 that suggested some local charities merge in order to provide more coordinated services, and reduce administrative and fund-raising costs (Millar, 1990). United fund-raising organizations also arise mainly to reduce resource competition and fund-raising costs (Rose-Ackerman, 1980). Therefore cooperation may increase survival chances of participant NFPOs by reducing resource cannibalization between them. For this reason, increased competition for resources is often associated with increased cooperative activity between NFPOs (Steinberg, 1987; La Piana, 1997; Bartling, 1998).

Enabling transfer of knowledge and skills Interorganizational cooperation may enable organizations to transfer tacit knowledge and to learn skills from their partners (Doz et al., 1989; Khanna et al., 1998; Kogut, 1988). In the not-for-profit world, learning occurs at all levels of functioning, including administration, programming and fund-raising activities. NFPOs can learn from each other at in least two different areas. First, they may strengthen their competencies or develop new ones through cooperation. NFPOs' staff may lack some core competencies (Bartling, 1998), which they might be able to improve or acquire through cooperation by sharing staff, and engaging in joint training and joint operations. Cooperation may also enable participating NFPOs to benefit from the experience of skilled not-for-profit sector executives, who are short in supply (Kohm & La Piana, 2003).

Second, by engaging in partnership relationships NFPOs may get information and access to the set of donors that other NFPOs have. This information is crucial insofar as NFPOs' survival depends to a large extent on the funding they receive. For this reason, NFPOs may not be willing to share information regarding donors. They are more likely to do so in highly integrative forms of cooperation (for example joint ventures and mergers) than in less integrative ones (for example joint programming).

Improving strategic positioning Interorganizational cooperation can help organizations to improve their strategic positioning (Kogut, 1988). For NFPOs, positioning is related to their status and visibility. The status of an NFPO, as we discuss in detail later, is an indicator of its quality, impact and trustworthiness, which derives from its prior performance, status of its exchange partners and status of its donors. Insofar as the status of an NFPO is influenced by the status of its exchange partners, cooperation with high-status NFPOs is likely to have a positive impact on the focal NFPO's status (Kohm & La Piana, 2003). Visibility of an NFPO, on the other hand, refers to the extent to which it is known by potential donors. Cooperation may also serve to increase their visibility by exposing them to a larger number of potential donors, as they operate on a larger scale and perform a more diverse set of activities (Austin, 2000; McLaughlin, 1998). Thus by performing joint programs and fund-raising activities, NFPOs not only take advantage of the scale economies and offer a wider range of activities, but they also have easier access to potential donors due to their increased visibility. Taken together these arguments imply that cooperation may help NFPOs to increase both their status and their visibility, which in turn improves their strategic positioning and facilitates access to potential donors.

On the whole, it appears that successful implementation of interorganizational arrangements may result in increased efficiency, reduced resource competition, enhanced knowledge and skills, and improved strategic positioning for NFPOs. Having addressed the 'why' dimension of interorganizational cooperation between NFPOs, in the following section we examine 'with whom' NFPOs are more likely to cooperate.

Relational factors affecting the likelihood of cooperation between NFPOs

There are multiple factors affecting the likelihood of cooperation between NFPOs. One can make a distinction between relational and non-relational factors. A relation is a collection of ties of a specific kind between pairs of actors (Wasserman & Faust, 1994: 20). Thus relational factors refer to the network characteristics of pairs of organizations. As stated by prior work on for-profit organizations (for example Gulati, 1995; Gulati & Gargiulo, 1999), relational characteristics of any two organizations can be reliable

predictors of their propensity to engage in cooperative arrangements with each other. These relational characteristics are not the sole drivers of likely cooperation. There are also some non-relational factors affecting the likelihood of cooperation. These factors do not depend on the network characteristics of pairs of organizations, but are based on organization-specific characteristics, such as size, or on largely exogenous (that is, sector- or country-wide) forces, such as environmental changes, regulations and other institutional elements. However while these non-relational factors can help to explain why some organizations are more likely to cooperate, they do not explain why these organizations would more likely cooperate with certain organizations. Since we are primarily interested in addressing the 'with whom' question of interorganizational cooperation between NFPOs, in the next section we focus on relational factors, which are stronger predictors of such arrangements.

Interorganizational embeddedness NFPOs, like any other type of organizations, are embedded in a variety of interorganizational networks. Embeddedness in various networks serves as a means of information which reduces the potential hazards associated with interorganizational cooperation (Gulati & Gargiulo, 1999). Gulati and Gargiulo (1999) distinguish three network mechanisms that shape the creation of new interorganizational ties. The first is relational embeddedness, which refers to the effects of prior direct ties between organizations on the likelihood of cooperation between those organizations. The existence of prior direct ties between two organizations helps them to learn about each other's competencies and reliability, and hence reduces uncertainty for future collaboration and increases the trust between them.

The second is structural embeddedness, which corresponds to the impact of the structure of relations among actors on the likelihood of cooperation between them (Granovetter, 1992). In particular, the existence of prior indirect ties between two organizations, which is an important structural characteristic of their relation, is likely to increase the likelihood of cooperation between them. These ties are important sources of information about the availability, capabilities and reliability of potential partners for any organization (Baker, 1990; Kogut et al., 1992; Gulati, 1995). Access to this information increases the likelihood of identifying new cooperation opportunities (Gulati & Gargiulo, 1999) and decreases the uncertainty an exchange partner faces (Podolny, 2001). For these reasons, past direct and indirect cooperative experiences are likely to increase the likelihood of cooperation between any pairs of organizations.

As for the third form of embeddedness, that is, positional embeddedness, it highlights the impact of the relative positions that a pair of organizations

occupy in their network on the likelihood of cooperation between them. It has been shown that central actors have better information about a larger pool of potential partners (Krackhardt, 1990; Gulati 1999; Powell et al., 1996), and are relatively more visible (Podolny, 1993; Podolny & Stuart, 1995). Therefore as Gulati and Gargiulo (1999: 1449) argue, interorganizational ties are expected to be more common between organizations that occupy central positions. Taken together, the above arguments imply that:

Proposition 1. The more embedded two NFPOs are, the higher the likelihood of cooperation between them.

Functional similarity By functional similarity we refer to the extent to which NFPOs serve the same objective (for example reducing smoking). Organizations that are pursuing the same or highly similar objectives are very likely to offer similar services (for example counseling), perform similar activities (for example anti-smoking campaigns) and hence to use similar resources (for example advertisement services, experts' discourse). This parallel use of resources for the same objective implies additional costs and is considered to be wasteful (Harris et al., 2002). In such situations, cooperation enables NFPOs to decrease their operating costs by reducing or eliminating duplication of services, or by economies of scale (Austin, 2000). These benefits increase as the extent of duplication increases.[4]

In addition, the perceived similarity of the services offered by NFPOs increases the meaningfulness of cooperation. Donors are likely to evaluate cooperation between two NFPOs that offer similar services as a relevant managerial tactic. Donors often regard the use of managerial tactics, such as interorganizational cooperation, as indications of organizational accountability, reliability and trustworthiness (Galaskiewicz & Bielefeld, 1998). For this reason, cooperation between two NFPOs that offer similar services can lead to a more positive re-evaluation of these NFPOs by donors. Such a positive re-evaluation secures the relationship between these NFPOs and their donors. It is also likely to generate an increased amount of donations. In consequence, the more similar the services offered by two NFPOs are, the more likely they are to reduce operating costs and increase donations through cooperation. Thus we propose the following:

Proposition 2. The higher the degree of functional similarity of two NFPOs, the higher the likelihood of cooperation between them.

Note that up to now we did not make any claims regarding how embeddedness or functional similarity differ in the way they affect the likelihood of cooperation between for-profit organizations and between not-for-profit ones. Indeed one would expect to find differences between these two cases,

as FPOs and NFPOs differ from each other in their sources of income and in their objectives. However, as we explained above, these two mechanisms operate in surprisingly similar ways. Below we introduce two additional relational factors that affect the likelihood of cooperation between NFPOs: status similarity and micro-niche overlaps. The former differs from the for-profit case not so much in the mechanisms leading to cooperation, but in the way it is defined. The latter, on the other hand, is, as we will see, entirely specific to NFPOs. Thus contrary to interorganizational embeddedness and functional similarity, these two factors are more specific to between-NFPO cooperation.

Status similarity Firms' status is a signal of the underlying quality of firms' products, when such a quality is uncertain (Podolny, 1993). In the not-for-profit world, NFPOs' status plays a critical role, since both the quantity and the quality of services offered by NFPOs are most of the time uncertain. Frequently donors are in a poor position to determine whether the NFPOs they funded have actually performed the promised services and what the quality of the performed services is. The only guarantee donors have is the non-distribution constraint that is supposed to give them at least some insurance that their donations are being used to provide the services they wish to be provided (Hansmann, 1987). Yet, donors still do not know whether their donations are being devoted in their entirety to the purpose for which they were made and what the quality of the services offered by NFPOs is (Steinberg, 1987). In this context, donors use the NFPOs' status as a signal of the quality of the service they offer. Therefore, NFPOs' perceived status has an important impact on potential donors' evaluation of NFPOs, and hence on their decision to make a donation.

The status of an organization is derived, at least in part, from its prior performance, which serves as a signal of its capabilities and future actions (Wilson, 1985; Podolny & Phillips, 1996). For an NFPO prior performance refers to its longevity and the social impact of its prior activities, which is the NFPO's long-term influence on its environment (Kanter & Summers, 1987). Yet, as with their for-profit counterparts (Podolny, 1994; Podolny & Phillips, 1996), NFPOs' status derives not only from their past performance, but also from the status of the organizations with which they engage in exchange relations. In the case of NFPOs the set of exchange partners does not only include other NFPOs, but also includes their donors. Hence, the status of an NFPO derives not only from its prior performance and from the status of NFPOs it engages in cooperative relationships with, but also from the status of its donors. The status of donors may have tremendous effect on the amount of donations an NFPO might receive, since inclusion of high-status donors signals to other donors that it is a trustworthy organization which

has already passed the evaluation of well-regarded donors (Useem, 1987; DiMaggio & Anheier, 1990).[5] Therefore an NFPO's status is a function of (1) its prior performance; (2) the status of its exchange partners; and (3) the status of its donors.

Whenever an NFPO engages in a cooperative relationship with another NFPO, its status is affected by the status of its partner. Since NFPOs' quality of services is uncertain by nature, the status of other NFPOs with which it interacts, as well as the other measures of status, that is prior performance (longevity and impact) and the status of donors, are used to gauge its quality (Podolny, 1993). When the status of potential partners is asymmetric, affiliation with a higher-status organization increases the focal organization's status, whereas affiliation with a lower-status one decreases it (Podolny & Phillips, 1996). As a result, high-status NFPOs usually prefer to avoid cooperating with low-status ones, since such cooperation may damage their own attractiveness. Therefore, as with their for-profit counterparts (Chung et al., 2000), the likelihood of cooperation between two NFPOs will increase with their similarity in status.[6]

Proposition 3. The more similar the statuses of two NFPOs are, the higher the likelihood of cooperation between them.

Micro-niche overlaps NFPOs, as it should be clear by now, are embedded in a network of relationships with other NFPOs that offer similar services, using similar resources. Importantly however, NFPOs are also embedded in a second network of indirect relationships with each other through the set of donors they have. This is a prominent set of relationships because, in contrast to the for-profit sector in which the output market determines the source of income through sales, in the not-for-profit sector the primary source of income is not the output market where organizations offer services, but rather the funding they receive from their donors. Therefore NFPOs primarily compete for donations, not for 'customers', even though the quality and usefulness of these services partially affect the level of donations they receive. Following the previous work on niches (Baum & Singh, 1994a, 1994b; Baum & Oliver, 1996; Podolny et al., 1996), we define a micro-niche as 'the area in the niche space where the organization feeds' (Galaskiewicz & Bielefeld, 1998), which mainly corresponds to the set of donors NFPOs have.

Note that there is no a priori expectation for these two networks of relationships (that is, the one between NFPOs that are functionally similar, and the one between NFPOs that are funded by the same set of donors) to overlap. For example any two firms may be serving the same objective (for example reducing smoking), but may have a very different set of donors,

which locates them in different micro-niches. Conversely, any two NFPOs can be in the same micro-niche (that is, funded by the same donors), but may be providing totally different services (for example one may be helping AIDS patients while the other is helping the victims of terrorist attacks).

Micro-niche overlaps can be an important predictor of cooperation. At low levels of micro-niche overlaps, where two NFPOs have very few or no donors in common, the incentive to cooperate will be higher. The main reason is that their cooperation might provide information about and/or access to each other's donors. Similar to the brokerage role in structural holes (Burt, 1992), privileged access to different sets of donors is very beneficial for both parties. Their network of donors will be bigger following cooperation. This advantage will be more significant when participants have very few overlaps, hence a lot to learn from each other.[7]

At high levels of micro-niche overlaps, information advantages will be significantly diminished. At the same time, since NFPOs mainly compete for donations, the level of competition will be high. In this case, interorganizational cooperation may help to avoid cannibalization and to reduce fundraising costs (Steinberg, 1987), and hence is encouraged by donors since it enables them more easily and more efficiently to direct their donations to organizations they consider optimal (Rose-Ackerman, 1980). Further, at high level of micro-niche overlaps, boards' interlocks may also contribute to facilitate cooperation between NFPOs. NFPOs' boards are special boundary-spanning and control units that keep organizations connected to parts of their environment while also differentiating them from external elements (Middleton, 1987). At high levels of micro-niche overlaps, board interlocks are more likely, as major donors are usually represented on not-for-profit boards. Like their for-profit counterparts, boards' interlocks among NFPOs function as an important conduit of information between them (Useem, 1984; Davis & Powell, 1992; Haunschild, 1993), reducing the uncertainty they face about the quality of potential exchange partners, and thereby contributing to facilitating cooperation between NFPOs.

In contrast, at moderate levels of micro-niche overlaps the effect of the different motives cited above are less pronounced. When the extent of micro-niche overlap is only moderate, the level of resource cannibalization is less than in the case of high overlaps, and therefore there is less incentive to engage in cooperative arrangements in order to reduce it. In addition, at moderate levels of micro-niche overlaps, board interlocks are less likely. Last but not least, when the extent of micro-niche overlap is moderate, the need for cooperation for information sharing is less important than it is when there are few or no overlaps, because the number of distinct ties that the other party has goes down. Therefore, we predict a U-shaped relationship between micro-niche overlaps and the likelihood of cooperation

among NFPOs, the likelihood being higher at low and high levels of micro-niche overlaps.

Proposition 4. The degree of micro-niche overlaps between two NFPOs has a U-shaped relationship with the likelihood of cooperation between them.

Since NFPOs are simultaneously embedded in both sets of relationships described above, their likelihood of cooperation will be jointly affected by them. Hence, combining our above-mentioned arguments, it is straightforward to deduce how embeddedness in these two sets of relationships will affect the likelihood of cooperation between any two NFPOs. As depicted in Figure 11.1, the likelihood of cooperation will be lowest when NFPOs serve different objectives and their micro-niches overlap moderately. The likelihood will be higher for those organizations that (1) serve more similar objectives; (2) feed from very different micro-niches; or (3) feed from very similar micro-niches.

Modes of collaboration

Interorganizational arrangements differ in the degree of structural change that they require from participating NFPOs. The degree of integration required in these arrangements ranges from punctual collaboration, which corresponds to the loosest type of integration, to merger, which of course

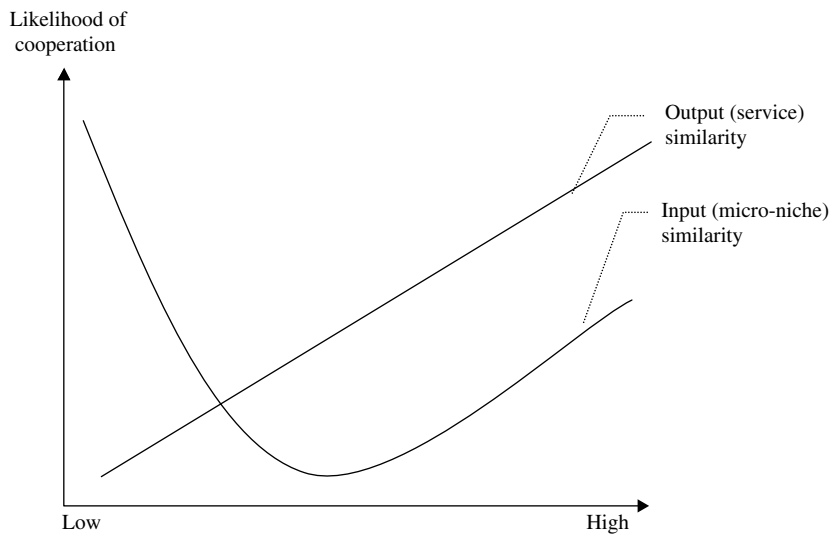

Figure 11.1 Similarity and likelihood of cooperation between NFPOs

corresponds to the tightest form of integration. Based on these criteria, Kohm and La Piana (2003: 4–8) distinguish seven types of interorganizational cooperation between NFPOs: collaboration, joint programming, administrative consolidation, management service organization, joint venture, parent–subsidiary and merger.

Collaboration refers to interorganizational arrangements that are about sharing information or coordinating efforts but do not include shared, transferred or combined services, resources or programs. In contrast, joint programming and administrative consolidation require NFPOs to commit, usually in writing, to an ongoing partnership. They both involve joint management of one or more organizational functions. While in the case of joint programming one or more programs are jointly managed, in the case of administrative consolidation one or more administrative functions are shared. The other forms of interorganizational cooperation, that is, management service organization, joint venture, parent–subsidiary and merger, are even more integrative. They involve changes to corporate control and/or structure, including the creation and/or dissolution of one or more organizations. Management service organizations are created by NFPOs in order to provide some or all of their back-office functions. Joint ventures are new organizations created by NFPOs in order to further a specific administrative or programmatic end. In a parent–subsidiary arrangement, one organization oversees others. Last but not least, merger enables previously separate NFPOs to combine programmatic and administrative functions as well as governance.

The choice between these alternative modes of interorganizational cooperation is neither trivial nor straightforward. On the one hand, there are some significant benefits to be acquired from interorganizational cooperation, as we have presented, and some of those benefits, for example elimination of services, can only be realized in more integrative forms of collaboration. On the other hand, in general most NFPOs are reluctant to involve themselves in highly adaptive forms of cooperation. This reluctance is mainly driven by their tendency to avoid further interdependencies caused by adaptive forms of cooperation which may threaten their autonomy (Pfeffer & Salancik, 1978), and to avoid losing their identity altogether (Bartling, 1998; McLaughlin, 1998).

The choice of the mode of interorganizational cooperation thus depends on multiple factors. Depending on factors that are context-dependent, specific to the NFPOs involved and to the objective of their cooperation, NFPOs may choose more or less integrative forms of cooperation. In the frame of this chapter, we discuss how the different relational characteristics we highlighted in the previous section may influence the choice of more or less integrative forms of cooperation.

Both high interorganizational embeddedness and functional similarity lead to more integrated structural forms of cooperation, but for different reasons. Embeddedness, as we mentioned earlier, serves as a means of information about the availability, capabilities and reliability of potential partners, which reduces the potential hazards associated with interorganizational cooperation (Gulati & Gargiulo, 1999). Thus highly embedded organizations are more likely to engage in more integrative arrangements than loosely embedded ones, as such an arrangement bears relatively less uncertainty for them. Functional similarity, on the other hand – given the existence of cooperation – leads to more integrated structural forms of cooperation, because elimination of services is more efficient in integrated forms. Functionally similar organizations are more likely to use similar resources and perform similar activities. Further, elimination of duplication requires delegation, closure or even merger of some functional domains. Thus the efficiency of elimination of these services will be low whenever firms engage in very loosely integrated, autonomous structural arrangements.

Status similarity however will not be a significant predictor of the form of interorganizational cooperation between any two NFPOs. To be sure, high-status NFPOs may leverage the competitive pressures and thus may be able to engage in more autonomous forms of collaboration. Yet there is no a priori reason to expect the extent of similarity of two NFPOs' statuses to affect the form of cooperation between them.

High levels of micro-niche overlaps, on the other hand, are more likely to lead to more integrated structural forms of cooperation. At low and high levels of micro-niche overlaps the likelihood of interorganizational cooperation goes up, since there are significant information-sharing benefits at low levels, and cannibalization reduction benefits at high levels. Yet since both of these benefits take effect through interconnectedness over the indirect resource network, achievement of these benefits does not necessarily require any significant form of integration. Still, one might expect to observe more integrated forms of cooperation at high levels of micro-niche overlaps, for two reasons. First, more integrated forms may increase the credibility of cooperation, which is particularly important in the reduction of resource cannibalization. Second, one would expect, as we mentioned before, NFPOs to share information regarding their donors in highly integrative forms of cooperation (for example joint ventures or mergers) rather than in less integrative ones (for example joint programming), since the information regarding donors is crucial for NFPOs and they understandably are not willing to share this information with others.

Finally, the mode of cooperation between two NFPOs is not constant over time. As Austin (2000) explains in the case of FPO–NFPO alliances, cooperation between two organizations usually goes through various stages

over time, from philanthropic to transactional to integrative. High integration is always more costly, harder to reverse, and hence overall more risky. For this reason, trust for the potential partner is especially important in highly integrative modes of cooperation. Prior experience, as we mentioned earlier, is important in building trust and providing information, and hence makes integration more likely. The same argument applies to between-NFPO cooperation as well.

Directions for future research

Interorganizational cooperation between NFPOs has received scant attention to date, and is still understudied and undertheorized. Clearly the rich alliance literature in the for-profit sector offers numerous valuable insights that can be directly applied to the not-for-profit case. At the same time, the differences in motives and activities of NFPOs, as it should be clear by now, require additional theories to address them. Of many fruitful research opportunities waiting to be addressed, we now mention a few.

First, empirical testing of the arguments presented in this chapter is necessary. Even though a few case studies (Kohm & La Piana, 2003; Yankey et al., 2001) provide some in-depth qualitative insight about interorganizational cooperation between NFPOs, they neither provide enough information to test all the arguments presented here nor have a sufficient number of observations to be used to justify and generalize our propositions. We believe that comprehensive empirical studies are likely to emerge in the near future, since the amount of available data on NFPOs' behavior is increasing as research centers on the not-for-profit sector flourishes both in the US and in the rest of the world.

A second intriguing area for research is to observe how diffusion of best practices, or more generally innovations, is affected by the existence of interorganizational ties between NFPOs. Research on for-profit organizations predicts that the existence of this type of relationships fosters the diffusion of practices (for example Haunschild, 1993), enabling more frequent and efficient knowledge transfer. We still expect to see a similar pattern. Yet it will be interesting to compare and contrast diffusion patterns in for-profit and not-for-profit organizations, since NFPOs are assumed to be slow responders to changes due to their lack of incentive to respond and limited resources (Kanter & Summers, 1987). However they may also be more flexible to change, if their donors force them to do so (Powell & Friedkin, 1987).

Third, it might be interesting to examine how interorganizational cooperation among NFPOs will affect donation patterns of corporations. Numerous studies have argued that corporate contributions are not completely altruistic, and are generally driven by self-interest (Keim, 1978;

Fry et al., 1982; Burt, 1983). Recently, Porter and Kramer (2002) have called companies to channel their donations in alignment with their strategic objectives to increase both their long-term profits and the social benefits. It would be interesting to see to what extent cooperative behavior patterns of NFPOs will be matched by the corporate world. It is for example possible that companies may refrain from channeling their donations to united funds, where their contributions, being one of the many contributors, will be noticed less publicly. But it is also possible they may be willing to donate to larger NFPOs, including united funds, since they simply attract more public attention than smaller ones.

Fourth, the role of geography in the context of interorganizational cooperation between NFPOs needs to be addressed. Even though there are numerous organizations serving multiple cities, regions or even countries, the great majority of NFPOs are geographically embedded both in terms of the services they offer and in terms of the potential donors they seek funds from. Still, it can be the case that an NFPO offers services locally in a certain area, but engages in cooperation globally, that is, with NFPOs from other cities, regions or countries. This is indeed what La Bourguette has been doing, as we mentioned at the very beginning of this chapter. Then the question is to know which constraints, if any, embeddedness in local networks put on an NFPO regarding its ability to engage in cooperative arrangements with others.

Additionally, it is necessary to analyze the dynamics of interorganizational cooperation between NFPOs over time, especially in response to macro-economic fluctuations. Evidently, recessions generally mark more difficult periods for NFPOs, during which the availability of donations is likely to decrease, whereas the need for them increases (Steinberg & Pearlman, 1982). In such situations, the imminence of financial problems ranges from immediate crisis to anticipated future challenges (Singer & Yankey, 1991). Thus one might expect to see more cooperative activity during economic slowdowns, and less during economic booms.

Conclusion

Our analysis highlights two observations, one empirical and one theoretical. First, in response to the economic, regulatory and social pressures that are reshaping the not-for-profit landscape, many more NFPOs have been engaging in interorganizational arrangements with other NFPOs in recent years than ever before. Yet scholarly work did not parallel the same trend and the phenomenon has received scant attention to date. It is still understudied and undertheorized.

Second, and importantly, we do need scholarly work on this area, not simply because it has not been studied much, but because what we know from

the existing literature cannot address all the questions that emerge in the not-for-profit sector. It is true that many insights from the existing alliance literature can be directly applied to the not-for-profit sector. We have already highlighted some in this chapter. However there are also areas that require additional theories to address the differences of the not-for-profit world, mainly stemming from NFPOs' differing objectives, inputs, outputs, sources of income and activities. For interorganizational cooperation, these differences bring a heightened complexity in boundaries that need to be managed. Notably, it is not usually the reasons of cooperation or the way they engage in those arrangements that differ in the not-for-profit alliances; it is the mechanisms behind those arrangements. This chapter is an attempt at developing a theoretical background for further theoretical and empirical work. To us, interorganizational cooperation appears to be one of the great challenges of organizing for NFPOs, but also a fascinating opportunity for students of interorganizational cooperation, as well as those of the not-for-profit sector.

Notes

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1. More information about La Bourguette can be found on its website: www.bourgette-autisme.org
2. In the United States, charitable foundations 'now hold over $330 billion in assets and contribute over $20 billion annually to educational, humanitarian, and cultural organizations of all kinds' (Porter & Kramer, 1999). Moreover, as of 1982, NFPOs employed over 8 percent of the total labor force (Rudney, 1987).
3. In the US for example, philanthropic organizations constituted 92 percent of employment in 1980s (Rudney, 1987). Today they still constitute the majority of the not-for-profit sector as 80 percent of all non-profit entities are philanthropic organizations, according to the Urban Institute (www.urban.org).
4. However it is also true that learning benefits are usually higher in cooperation between organizations that are different (see Mowery et al., 1996).
5. The total amount of donations received may also serve as a mechanism to affect the status of the NFPO, whenever donors are numerous and anonymous.
6. As Ahuja (2000) mentions, important inventions can enable mismatched pairings, that is, cooperation between a high-status organization and a low-status one. While the same argument might apply to the not-for-profit world as well, it is necessary to keep in mind that important inventions, and subsequent cooperative arrangements, are very rare in this context.
7. It is important to underline here that this information is crucial insofar as NFPOs' survival depends to a large extent on the funding they receive, and the existence of more NFPOs demanding donations from a given donor reduces the chances of any given NFPO to raise funds from that specific donor. For this reason, as we mentioned earlier, NFPOs usually may not be willing to share information regarding their donors. Hence, one would expect NFPOs to share information regarding their donors in highly integrative forms of cooperation (for example joint ventures or mergers) rather than in less integrative ones (for example joint programming).

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