THIRD SECTOR CHARACTERISTICS AND IMPORTANCE

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Abstract
This article aims to present a brief overview of existing definitions and specific characteristics of the third sector. It also highlights the basic functions of the NGOs as an important institutional and organizational actor in the global political–economic landscape.

Key words: NGO, third sector, non-profit organizations

1. Introduction

Nowadays, although the market economy and state institutions seem to bring answers to all questions and solutions to all problems, the importance and role of the third sector is constantly growing. From the birth of this sector, and in particular from the registration of the first non-governmental organizations at the end of the eighteen century, their number is estimated today in millions of organizations worldwide. Also the interest of researchers is there for more than 40 years. According to some of them, it could even called "fourth sector" since communitarian groups such as clans, families and informal associations are often excluded from the concept of a third sector (Priller and Zimmer 2001).

2. Third sector – how to understand it

2.1. Classical division of sectors

According to British tradition, classical structural model of developed democracies consists of three basic sectors – public administration (covering every form of state emanation), which is usually called *public sector* (also called *first sector*), then, private sector (for-profit, also *second sector*) and finally, the remaining field

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between first and the second, non-profit organization sector (said *third sector* or *NGO sector*).

Popular definition of the third sector usually covers all types of organizations formed as grassroots initiatives, that are separate from the state (are neither financed by the state, nor are the state structures), and which are not created in order to maximize profits of its members / founders (as opposed to for-profit subjects like companies). Such organizations are for example associations, foundations or charities.

The term *nongovernmental organization* can be dated back to 1950 and was firstly used by the United Nations (UN) as an organization separate from a government (Vakil, 1997). Modern definition of an NGO composed by UN (1998) describes non-governmental organization as follows:

> *Any non-profit, voluntary citizens' group which is oriented on a local, national or international level. Task oriented and driven by people with a common interest, NGOs perform a variety of services and humanitarian functions, brings citizens' concerns to Governments, monitor policies and encourage political participation at the community level. They provide analysis and expertise, serve as early warning mechanisms and help monitor and implement international agreements. Some are organized around specific issues, such as human rights, the environment or health.*

More technical description by Hudson and Bielefeld (1997) specifies that NGOs are organizations that:

— provide useful (in some specified legal sense) goods or services, thereby serving a specified public purpose;
— are not allowed to distribute profits to persons in their individual capacities;
— are voluntary in the sense that are created, maintained, and terminated based on voluntary decision and initiative by members or a board and
— exhibit value rationality, often based on strong ideological components.

To look on NGO from somewhat different perspective it is worth to analyse definition offered by Teegen *et al*. (2004), who focused on social aspect and described NGO as:

> *Private, not-for-profit organizations that aim to serve particular societal interests by focusing advocacy and / or operational efforts on social, political and economic goals, including equity, education, health, environmental protection and human rights.*

2.2. Different dimensions of NGOs

In order to clearly organize specific information and distinctions between given kinds of NGOs we should try to place them within typological matrix constructed by Yaziji and Doh (2009), who suggests to ask two basic questions in order to investigate the nature of given organization. First step is the answer to the question – what the NGO does (axis X), the latter axis of this matrix is derived

from question – who is actual beneficiary of NGO's actions. Aforementioned matrix, completed with suitable examples is shown below (Figure 2).

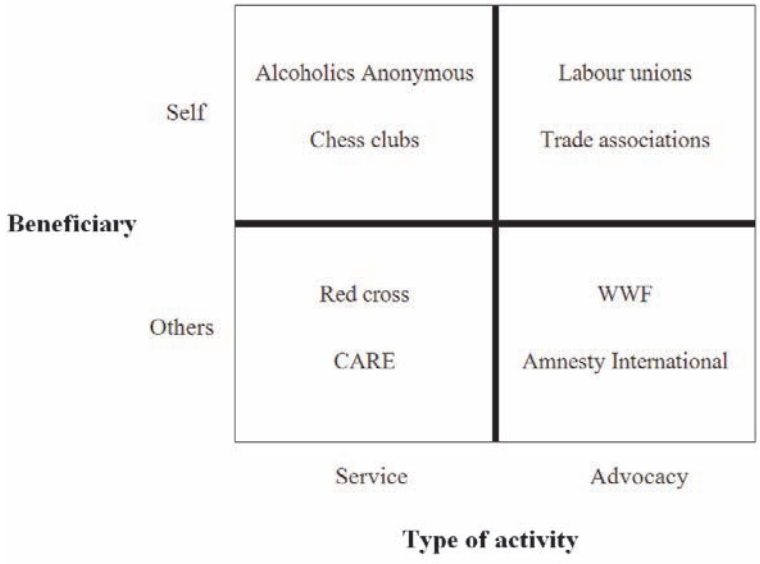

Figure 1. NGO typological matrix
Source: M. Yaziji, J. Doh, *NGOs and Corporations. Conflict and Collaboration*, Cambridge University Press, New York, 2009, p. 5

Before further analysis of possible matrix combination we need to have in mind a simple fact that abovementioned division represents different theoretical models. In reality, as Yaziji and Doh (2009) emphasize, "a single NGO may occupy more than a single quadrant at any given time and may move from quadrant to quadrant over time".

Very first dimension relates to question – who gains benefits from the NGO's actions? Of course, the intention of this question is not to point out every possible social class or group taking benefits from given charity action in the world, but to draw a simple demarcation line between two possible answers – we are the beneficiaries ourselves, or beneficiaries are the others, whom we serve and whose interests we protect.

Self-benefiting organizations are mainly groups brought to life in order to protect their rights and privileges in front of governments or market agents. Their actions are motivated only by self-interest in order to bring certain benefits to their members. Significant feature of such NGOs, according to Yaziji and Doh (2009), is that they are distinguishable by the fact that the financial and/or labor contributors to the NGO are themselves members of the group of intended beneficiaries. Examples of such organizations can be found above, in two upper quadrants of the Figure 2. Most popular self-benefiting organizations are labour unions and employers confederations

On the other side we can distinguish *other-benefiting organizations*, which members and contributors, oppositely to formerly described NGOs, does not belong to group they want to empower. Such NGOs perform activities directed at primarily defined target-groups or very wide scope of possible beneficiaries, namely, whole societies. Examples of such organizations are placed within two bottom quadrants of the Figure 2 above. World famous examples of such organizations are WWF or Amnesty International.

Self-benefiting organizations usually represent higher level of accountability in terms of profit/cost efficiency, as they are appraised by their beneficiaries, who in the same time are their main financial contributors. Others-benefiting NGOs on the other hand represent rather lower level of accountability compared with self-benefiting organizations as they operate in completely different circumstances. Others-benefiting organizations usually call on human need to help, philanthropy, but they cannot put any other pressure on their contributors (whom very often they do know), therefore financial effectiveness of such NGOs very often is lower than expected.

It is important to emphasize the differences in outside perception of those two types of NGOs. According to authors, self-benefiting organizations are very often seen as "instruments" serving its contributors in order to bring them expected benefits. Therefore, society very often is sceptical towards such organizations and do not hold them in high regard, or at best stays "neutral" in cases of such self-benefiting organizations like social clubs (like Alcoholics Anonymous) or sports clubs.

Significant difference is visible in case of others-benefiting NGOs when it comes to their outside image. Such NGOs usually enjoy high public esteem, their work is considered of high moral regard, their workers and volunteers are seen as inspirational, "true believers" who dedicate themselves for public good.

Second dimension of typological matrix was the answer to question what given NGO does, which again regroups organizations among two categories – NGOs which main activity is "advocacy" (upper-right and bottom-right quadrant in Figure 2) and the latter which provides different kinds of "services" (upper-left and bottom-left quadrant in Figure 2).

To group of *Advocacy NGOs* belong organizations that promote certain sets of demands or ideology to be implemented in social-economic-political system. They range of activities is very high, as mentioned by Yaziji and Doh:

> *They engage in lobbying*, *serve as representatives and advisory experts to decision-makers*, *conduct research*, *hold conferences*, *stage citizen tribunals*, *monitor and expose actions* (*and inactions*) *of others*, *disseminate information to key constituencies*, *set / define agendas*, *develop and promote codes of conduct and organize boycotts or investor actions.*

Service-oriented NGOs, on the other hand, are focused on providing people with goods and services which, for various reasons, they lack. It relates to situa-

tions where governments, state institutions do not fulfil their responsibilities towards its citizens, for example in fields of social care, health care, or education.

3. Theoretical foundations of NGO's existence

3.1. Main reasons of dissatisfaction with the market

Both, in real life and also in economic literature we may find many voices saying that free-market economies are perfect only in theory. It means that some (not all) conditions and parameters of model free-market are not necessarily met. It evokes immortal question whether it is a temporary defect (neo-liberal school) or permanent feature of the market mechanism (Keynesian school). One does not have to have an answer to this question, for the sake of this argument, it is enough that same statement about imperfection of the free-market economy and its environment stays actual. To main reasons of dissatisfaction with the market we can include imperfect access to information, excludability, imperfect competition or question of costs' externalization.

Asymmetry of information

In model market situation every seller and every customer possess all necessary information and use it in order to gain optimal benefit from each market transaction. Unfortunately, none of existing market has been brought to such perfection yet. Thus, if there is situation in which one side of exchange knows much more than the other side, it will probably result in situation of asymmetrical benefits of each side. Usually, it is a producer / seller who knows more and in consequence is better off, compared to a customer. Naturally, after a few such exchanges customer certainly knows more and tries to avoid such sellers and resign from buying products he was not fully satisfied with before. It naturally creates specific areas of unsatisfied needs of the customers and sellers which has been created due to the fact of imperfectly working market.

Excludability

Volume of goods and services in theory depends on the supply / demand game, which, based on perfect flow of information, guarantees that producers offer just optimal number of desired goods at optimal price. In reality, very often *invisible hand of the market* fails to provide all desired goods in adequate proportions, or even does not provide certain goods at all, even if they are socially desirable. Such situation may occur when, despite of general public demand, providing given good or service is not profitable to producer. In consequence, modern markets do not fulfil the needs of those who do not possess the necessary economic means to buy product they need. Clear examples of such situations are observed in developing countries which lack of basic product like food, medicines or vaccines.

Imperfect competition

Another element, crucial for proper functioning of the market, that is perfect competition, again seems to exist only in neo-liberal textbook on economics. In theory, the greater competition on market, the bigger gain for potential customers who can choose between potential providers of given good. Client, having a possibility to choose from many different providers, has a significant power over them. The problem occurs in situation of monopoly or monopsony, where extremely limited number of producers of certain goods or services can dictate conditions (e.g. price, quality) to the customers. Having no real negotiating power, customers' only choice is to buy product or stay with nothing.

Cost of externalities

Price of goods and services are established via supply / demand game and should be correlated with all the costs of production of given goods. Nevertheless, there are particular situations, when costs, say, externalities, are not directly calculated in the cost of production and therefore are burden on the third party that is not beneficiary of transactions. To such costs we may include environmental problems (e.g. damaging natural resources, pollution of water, high CO_2 emission) caused in process of production. As Yaziji and Doh remark, there is also "more contentious version of this type of market failure" – which is category of indirect costs:

> *For example, arms producers*, *abortion providers*, *alcohol producers*, *tobacco manufacturers*, *producers and marketers of pornography and using sexually objectifying of women are often challenged by NGOs because of indirect costs to society of the use of their products or services. The market failure complaint in this case is that third parties who are not given a choice in the matter and who are not compensated absorb some of the costs of the use of the product.*

Authors emphasize, that problems listed above are the subject of debate, whether they belong to problems caused by free-market economy or are forms of modern "cultural pollution". Again, for the sake of our investigation the answer for that question is not necessary. It is important to mark all relevant sources of problems and dissatisfaction with the functioning of the free-market mechanisms.

3.2. Main reasons of dissatisfaction with the state

Every state is burdened with significant number of obligation towards its citizens, and similarly to market, unfortunately is not drawback-free as well. State is responsible for providing *public goods* and to compensate the drawbacks caused by imperfection of free-market. Number of the state obligation depends on philosophy of the state (minimal state of neoliberals vs powerful state of Keynesians). Despite of the character of the state (minimal or welfare state) every government faces number of important problems which are rooted in democracy itself. Every democracy tries to fulfil its duties and aspirations according to current political will and the due to the voice of the majority. It implies that not everyone will be satisfied

with his/her government's decision. As Golinowska (1999) emphasizes, there is no common, universal function of social welfare, which means that in government's activities there cannot be any optimal Pareto choice – every gain of certain group (e.g. majority) is in the same time the loss of the other group (e.g. minority).

When both, market and state fail to fulfil their obligation eyes of the public tend to turn into direction of regulatory and legislative bodies, in expectation of undertaking right actions. First complication appears, according to Yaziji and Doh, when it comes to realizing and addressing problems with market's functioning. As an example, Authors described the case of US legislators, who for long time have failed to notice arising problem of the climate change, even under pressure of NGOs which tried to execute action of US senators.

Second kind of problems that are faced by many democracies happens after setting an agreement that there are certain problems with the market which needs to be compensated. Very often, legislators, government and public opinion debate whether solving certain problem should be a reason of state's intervention, as such questions always relate to philosophy of the state (*laissez-faire*, minimal state vs welfare state). In times of Thatcher-Reagan era, when non-intervention approach was in mainstream, lack of governmental response in certain situations was one of key factors of rise of advocacy NGOs in Europe and US, reminds Yaziji and Doh (2009).

Theoretical model of the state is based on assumption that politicians, representing political will of their voters undertake optimal decisions for the state and their citizens. Nevertheless, practice shows that legislation is exposed to constant influence of different interest groups, which act as competitors in order to drive favourable regulations. It brings a serious threat that decisions undertaken by legislators may be dictated by powerful minority at the cost and against the will of majority and state's interest.

In consequence, after faulty free-market economy, another element of three-sector system, which is state, due to its ineffectiveness fail to satisfy the needs of certain groups. As Golinowska concludes:

> *Two fundamental elements of modern economy and democratic systems, free-market and state, are ineffective in certain spheres of their actions, and basically, those spheres are common. Firstly, market does not fully satisfy the weakest customers, and the state does not satisfy the weakest voters. Secondly, market does not produce public goods and services at all, and the state do it not along to the social preferences, or / and not effectively.*

It creates a specific sphere for, so called, *social entrepreneurship* which emerges in order to compensate the ineffectiveness of the other two sectors. Social entrepreneurs operate within specific segments of the economy like health, social services or education. Compared with private for-profit firms, they enjoy competitive advantage over them in sectors where trust and reputation are important. Compared with public sector, NGOs are more flexible, more effective in terms of lower labour costs (when compared to bureaucracy of public entities) and very often can

operate in situations when public institutions face political barriers (Oster, 1995). What is more, third sector operates very often in similar areas and can be very effective as a partner or even substitute for public institutions. This relations of overlapping competences of the three-element systems is depicted on the picture below:

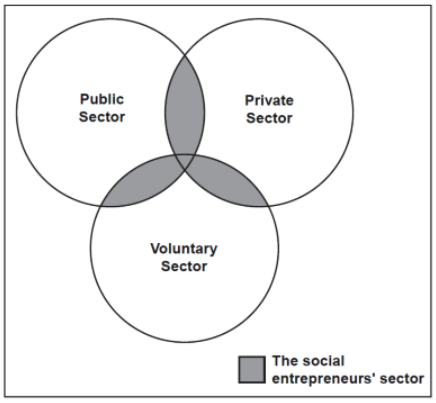

Figure 2. Defining social entrepreneurs' sector
Source: Leadbeater C., The Rise of the Social Entrepreneur. London: Demos, 1997, p. 10

Over decades, along with constant development of civil societies and dynamic growth of new and international markets, classical division of sectors is facing significant change, which results in transition of ascribed roles and shrinking of the public sector. Schematic process of the shrinking of the state is depicted in Figure 4 below.

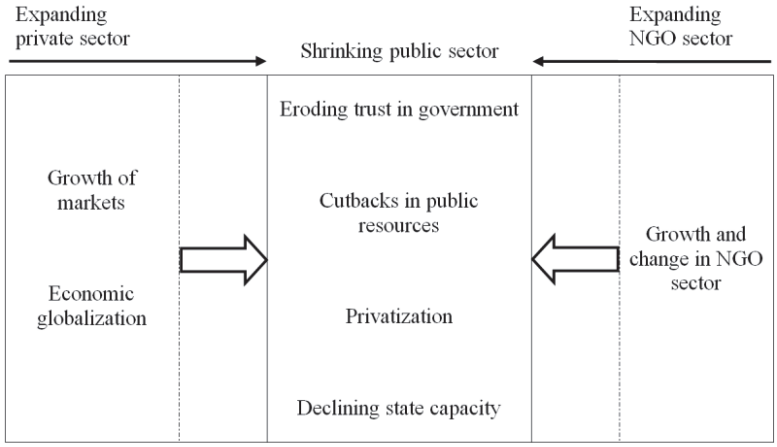

Figure 3. Shrinking of public sector
Source: Yaziji M., Doh J., *NGOs and Corporations. Conflict and Collaboration*, Cambridge University Press, New York, 2009, p. 8

In the globalized world are also changing interactions between NGOs and corporations. This relationship is incorporating the elements of conflict and cooperation. Within the pressure relation, NGOs have been actively enhance corporations – either individually or through industry-wide campaigns to behave more responsibly toward the society. Meanwhile, at the same time, they are providing technical assistance to help corporations respond to the pressure, by offering them more flexible and direct access to the social stakeholders.

4. Main characteristics of the NGOs

NGOs are therefore distinct from formal and informal membership organizations. Also their origins differ a lot: some NGOs were set up by left-leaning professionals or academics in opposition to the politics of government or its support for or indifference to the prevailing patterns of corruption, patronage, or authoritarianism. Some are based on religious principles, others on a broadly humanitarian ethos, and yet others were set up as quasi-consultancy concerns in response to recent donor-funding initiatives. Some NGOs reject existing social and political structures and see themselves as engines for radical change; others focus on more gradual change through development of human resources (usually through group formation) to meet their own needs or to make claims on government services; yet others focus more simply on the provision of services (e.g., advice, input supply) largely within existing structures.

Despite the above mentioned differences, Salamon and Anheier (1997, p. 9), argue that the third sector organizations share five common characteristics, as they are:

— *organized*, as they possess some institutional reality,
— *private*, institutionally separate from government,
— *non-profit-distributing*, as any profits are generated to their owners or directors,
— *self-governing*,
— *voluntary*.

Another set of characteristics based on their philosophy and practice of intervention, is proposed by Fast (2007), who studied their behavior in situations of conflicts. Since NGOs frequently have similar tasks, they may differ in the way in which they execute them, so taking into account this divergence in the intervention practices we can say that they are:

— *impartial* (working for both sides of the conflict),
— *engaged* (defined as an organization's level of integration into the local community),
— *participative* (defined as the extent to which the individuals forming the organization were involved in the decision-making).

Another set of common characteristics of NGOs according to Ball and Dunn (1994) is more connected with their reason for existing, definition, are: they are formed voluntarily, they are independent of government, they are not for private

profit or gain; and their principal goal is to improve the circumstances and prospects of disadvantaged people.

5. Role of NGOs in modern society

The roles NGOs play nowadays are so various as diverse they are. They often hold an interesting role in a country's political, economic or social activities, as well as assessing and addressing problems in both national and international issues, such as human, political and women's rights, economic development, democratization, health care, or the environment.

First of all, taking into account their voluntary character, NGOs give to the society the opportunity to organize itself with the aim of promoting social values and civic goals. Therefore, they give to the groups of civil society the power to struggle for a change in the concrete, sometimes poor, communities.

Secondly, the vibrant third sector, by occupying the space between the for-profit sector and the government, is a real equilibrium point for both sectors. They help to create a healthier balance between the potential excesses of capitalism and the inefficiencies and limited resources of the state. This middle ground is an essential arena for promoting additional checks and balances in society. Only independent organizations, such as NGOs, can serve as arbiters of both government and business (Heintz, 2006). Thanks to this middle position NGOs can also facilitate communication upward from people to the government and downward from the government to the people. In this role they can also become spokespersons or ombudsmen for the poor and attempt to influence government policies on their behalf (Cousins, 1991).

Additionally, NGOs are recognized as being both, collaborative and adversarial to the business and in particular to the corporative world. Besides making pressure on managers of corporations regarding social, environmental issues, they are more and more likely accompanying for-profit organizations within the same challenges. Also small companies interest in cooperation with NGOs for the implementation of corporate responsibility approach is constantly growing, following the recommendation of regulators in this field.

Third sector organizations are also known as great risk takers, as they accept risks which are economically inacceptable to the business sector and politically to the government. NGOs are ready to operate in the fields where only so flexible and engaged organizations see the opportunity of societal change.

6. Conclusions

The third sector importance is constantly increasing as the modern world offers more and more space for its development. The market economy with its imperfections leaves more and more gaps and brings more and more exclusion to the individual society members but also to the entire communities worldwide. This enhances bigger variety of the organizations within this sector and strengthen their role in modern society. The world of NGOs is a galaxy of various organizations

with imprecise dimensions. In fact, despite efforts of such important institutions as United Nations or Unesco, the last reliable statistics go back to 2010. The need for updating the information is not only an academic requirement.

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CHARAKTERYSTYKA I ZNACZENIE TRZECIEGO SEKTORA

Niniejszy artykuł ma na celu przedstawienie krótkiego przeglądu istniejących definicji i specyficznych cech trzeciego sektora. Przedstawia też podstawowe funkcje organizacji pozarządowych jako ważnych podmiotów instytucjonalnych i organizacyjnych w globalnym krajobrazie polityczno-gospodarczym.

Słowa kluczowe: organizacje pozarządowe, trzeci sektor, organizacje non-profit