

## Letter to Editor

### Third sector organizations in rural development — A Comment

This is a comment on Valentinov's article "Third sector organizations in rural development", Volume 18 (2009), pp. 3-15. Summing up Valentinov theses, there are three main statements to be mentioned: 1) the market-hierarchy continuum by Williamson is only applicable to the forprofit sector, 2) rural transaction costs represent non-changeable 'brute facts', and 3) third sector organizations (TSOs) in general (partially) rely on self-sufficiency. Each statement is reviewed critically below.

As his focus is efficiency and operational capability (Williamson 1991, p. 17) Williamson shows no reluctance to analyze a TSO by means of transaction cost analysis. Besides, Williamson explicitly names "nonprofits" when describing different governance structures (Williamson 2000, p. 599). Accordingly, to illustrate the transferability of the continuum's criteria, Valentinov's self-helping organizations can be considered as institutions with 1) independent property rights, e. g. members possess the property rights of their resources, 2) pooled success attribution, e. g. pooled consumption of outputs, and 3) a certain subjection to directives, e. g. rules of how consumption is managed fairly. Hence, self-sufficient organizations can be considered as institutions with a hybrid character somewhere in between the two poles of the market-hierarchy-continuum.

To distinguish different transaction forms from one another asset specificity, uncertainty, and frequency have to be considered; whereas the frequency dimension often comprises the transaction atmosphere additionally (Williamson 1985, p. 60). The atmosphere covers all sociocultural and technical factors that influence the transaction costs of different governance mechanisms. With the help of these dimensions distinctive characteristics of transactions and therewith specified transaction costs can be defined. When Valentinov describes the characteristics of rural areas he in fact refers to the dimension of transaction atmosphere. Here, market size and its number of actors can be taken into consideration (see Williamson 1985, p. 60) as they lead to characteristics that influence transaction costs: compared to anonymous urban relationships and due to low population density, economic units in rural areas know each other well, are in

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continuous contact with one another, and are obliged to certain kinds of social collaterals. All these factors replace stringent governance forms to a certain degree and alleviate the transaction costs of seeking, negotiating and safeguarding. Otherwise, as actors are sparse, ex post dependency and the fear of exploitation might afford appropriate safeguards that might raise transaction costs. Rurality thus implies both: factors that impede frictionlessness and those that facilitate it, but it is not comprehensible that it should stand for unchangeable transaction costs.

Valentinov concentrates on “self-help organizations”, which might be typical of rural TSOs. Yet, the heterogeneous group of TSOs can imply both, self-help organizations in the sense of Adam Smith’s “Wealth of a Nation” (1776) and outside-help organizations in the sense of Smith’s “Theory of Moral Sentiments” (1759). Thus, Valentinov’s conclusions cannot be generalized to the whole third sector as there are other institutions within the third sector with no such democratic nor self-help features at all, e.g. foundations. Hence, TSOs cannot be “generally explained as an embodiment of self-sufficiency...” (p. 7).

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