

The Portuguese *Misericórdias*: General Characterisation and Some Insights Into Non-profit Governance

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Abstract:

Portuguese *Misericórdias* are a non-profit charitable institution with 500 years of history. The analysis of the *Survey on Portuguese Misericórdias* and of some additional data sets provides a general characterisation of this institution.

Non-profit governance literature is reviewed, specifically three sorts of questions: the governance model; specific governance problems arising from the not-for-profit nature and the roles performed by non-profit boards.

The governance model in Portuguese *Misericórdias* is briefly characterised, including the reference to topics on Communication Mechanisms and Decision Making Processes.

Some conclusions from literature survey are discussed under the *Misericórdias* reality. Results point that those conclusions are not applicable to the *Misericórdias*' Governance Model. The importance of boards of directors' decisions is addressed. Jensen and Meckling's model on human nature (REMM) is discussed as a possible framework for understanding boards of directors' motivations and decisions.

As only descriptive statistics are used, this paper is far beyond standard analysis on non-profit governance. It thus must be viewed as a first step aimed at identifying relevant research hypothesis.

Keywords: Portuguese *Misericórdias*, non-profit governance, charitable organisations

INTRODUCTION

The *Misericórdias* are a Portuguese non-profit charitable institution that for its history and its current dimension seems to us unique world-wide.

Although they take part in Portuguese society for the last 500 years, they have not been chosen as research subject by Portuguese researchers (Historians are notable exceptions). With this paper we intend continuing the work done on Barros and Santos (2000), where we find different approaches to a survey conducted under the *ISEG' Social Economy Project*.

Beyond scientific purposes of this work, it's also our intention to present internationally the history and actual activity of this Portuguese charitable institution. Confronting with other similar institutions will allow us a better knowing of the Portuguese *Misericórdias*.

Analysis of data resulting from the survey provides a general characterisation of the institution (Pereira, 2000). We report some results about the distribution of foundation's date, the origin, the nature and definition of the *Misericórdias* and some insights into the main features of their activity (facilities, consumers, financing, recent evolution).

Non-profit governance literature is reviewed, specifically three sorts of questions: the governance model; specific governance problems arising from the not-for-profit nature and the roles performed by non-profit boards. In the first case, we are in the presence of a discussion on the strengths and weaknesses of the agency and the stakeholder models when applied to non-profit institutions. Discussing the second point, authors argue that the non-existence of shareholders, the volunteer nature of board membership and, in some cases, the strong presence of government financing, rise unique problems to non-profit governance. The third question refers to boards seen as "boundary spanners", their interpretative role and their equilibrating force in crisis.

The governance model in Portuguese *Misericórdias* is briefly characterised, including reference to topics on Communication Mechanisms and Decision Making Processes.

Some conclusions from literature survey are discussed under the *Misericórdias* reality. Results point that those conclusions are not applicable to the *Misericórdias'* Governance Model. The importance of boards of directors' decisions is addressed. Jensen and Meckling's model on human nature (REMM) is discussed as a possible framework for understanding boards of directors' motivations and decisions.

BRIEF REVIEW OF PORTUGUESE MISERICÓRDIAS HISTORY

The *Misericórdias*¹ are a Portuguese nonprofit charitable institution that for its history and its current dimension seems to us unique world-wide. They are catholic lay assistance orders established in the Canonical Juridical Order. D. Leonor, the King's sister and widow of the former King D. João II, created the first *Holly House of Misericórdia* in the city of Lisbon, in 1498. With D. Leonor also a group of an hundred Christians from all social origins in society compromised themselves to accomplish a series of charities that included caring for the disadvantaged, praying and spiritual meditation. Since then, it has revealed itself as an organised expression of civil society.

At the time, the innovative mark of the *Misericórdias* went for beyond the institution itself, it was related to the national nature that it was intended to have. Supported by the King, the

¹A literal translation would be "Mercies". However, "Charities" may respect more closely the spirit of the Portuguese word. The name remembers the foundation of the *Misericórdias* by a fraternity devoted to Our Lady of Charity and the fact that it came into being in Lisbon on the day of Our Lady, 15th August 1498. Besides that, the founders compromised themselves with the accomplishment of fourteen works of mercy (*misericórdias*, in Portuguese) (charitable works). Seven of them were spiritual works (like praying for the saving of the souls or advise those in need) and the other seven respected to corporal charities (like giving hospitality to the pilgrims, burying the dead or redeeming the captives and helping the prisoners).

Misericórdias' work spread quickly across the country. In 1500, two years later, there were 23 *Misericórdias* all over the country [Silva, 1998]. Later they went abroad with Portuguese Discoveries and reached Brazil, Japan, India and more regions of the world. Very different historical periods saw the rise of new *Misericórdias*, including those that have been born in 20th century. Today we can say that in all municipalities² of the country we have, at least, one *Misericórdia*, in a total of 383.

These institutions seem to us of greater interest among charitable non-profit organisations. They were born independent from the State and kept like that. They didn't appear to replace the State, once they were already there.

Although they were founded by a Queen, supported by the King and blessed by the church, history shows that they never submitted themselves to the State nor became church property. An historian of *Misericórdias* says: "They are border institutions between the state and the church... And not even one *Misericórdia* was founded by an official decree nor by the canonical law." (Silva, 1998, p. 297).

Almost all of the older Portuguese *Misericórdias* were founded by fraternities (*confrarias*), social organisations resulting from religious initiative that in the past performed a very important role in social control (Barros, 2000). They gathered the men of good will, in an organisation that stood up for the practice of the charitable works. "These orders were dedicated to the Our Lady of Charity and appeared in Portugal under the influence of D. Leonor. They represented the most specifically reforming movement in the history of the Portuguese brotherhoods; they were characterised in a rectorial way by a penitential and spiritual dimension which is hardly to be found at all in the tradition of medieval Portuguese brotherhoods" (Sousa, 1998).

The *Misericórdias* have been present in Portuguese society for the last five centuries, in some historical periods supported by the authorities and in others almost persecuted. Nunes et al. (2001) emphasises the longevity of this organisation: "The older *Misericórdias* are real paradigms of organisational efficacy in its enduring dimension. Their existence for 500 years makes them real cases of exception of organisational longevity, exceeding all the usual standards in organisational theory."

GENERAL CHARACTERISATION OF PORTUGUESE *MISERICÓRDIAS*

Recognising the importance of the *Misericórdias* among non-profit institutions in Portugal, in 2000, a survey was conducted under the *ISEG'S Social Economy Project*. Since 1997 the ISEG³ has been studying the third sector in Portugal, conducting several surveys (foundations, co-operative societies, mutual companies) and concluding with this *Survey on Portuguese Misericórdias*. The Project intends to analyse the organisations, the markets and the principles and values underlying.

Under this project, 330 surveys were mailed and 91 filled up were returned, for a rate of response of 27,57%. A 95% significance level for a +/-0,25% margin error was considered. Although the survey resulted in interesting outcomes, we have to be careful in inferring these results to the *Misericórdias* universe.

² In Portuguese: *Concelho*, administrative division in Portugal, unity of local government, nearly corresponding to a town.

³Institute of Economics and Business Administration, Technical University of Lisbon, Portugal.

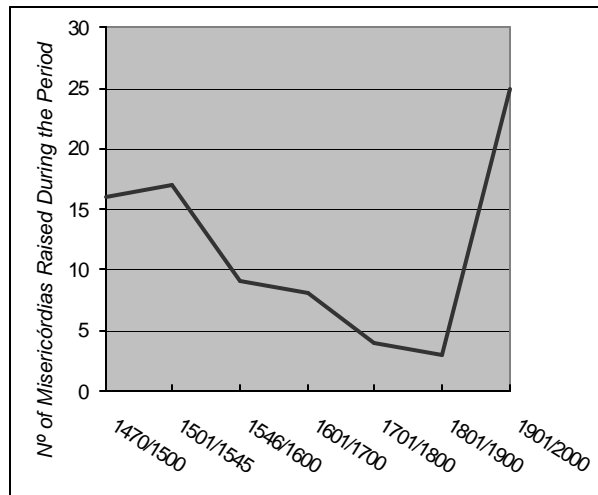
Analysis of data resulting from the survey provides a general characterisation of the institution (Pereira, 2000). Following we report some results for the distribution of foundation's date, the origin, nature and definition of the *Misericórdias*, and some insights into the main features of their activity (facilities, consumers, financing, recent evolution).

The distribution of foundation's date

Although 1498 is the date usually accepted for the foundation of the Portuguese *Misericórdias*, in the sample two Saint Holly Houses declared a previous date⁴. The process continued for the last five centuries ending, for the *Misericórdias* being studied, in 1993.

The evolution is characterised by a first century of great expansion of the number of *Misericórdias*, growth rhythm that only came to be recouped already last century. While 20% of the *Misericórdias* from the sample came into life in the first thirty years and more than half already existed in 1600, between this last date and the principle of 20th century occurred a diminishing rate of rising of new *Misericórdias* (see Graphic 1).

In Silva (1998) we found values for the growth of the number of *Misericórdias* that confirm the evolution found for the sample: in 15th century 23 *Misericórdias* have been created (between 1498 and 1500), in the following century 139 were born, decreasing drastically this number for 36 and 11 *Misericórdias*, in 17th and 18th centuries respectively.



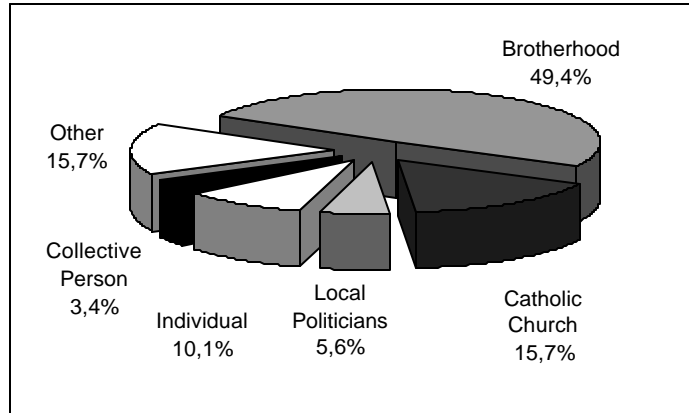
GRAPHIC 1 – Evolution of *Misericórdias* rising (Pereira, 2000)

Origin, Nature and Definition of the *Misericórdias*

In the survey we looked for to identify the responsibility of the initiative of *Misericórdias* creation. Five possible origins were considered: a fraternity, the local Catholic Church, the local politicians, an individual, a collective person or another type of origin. Analysing the answers, we conclude that the fraternity, creating half of the *Misericórdias*, and the local

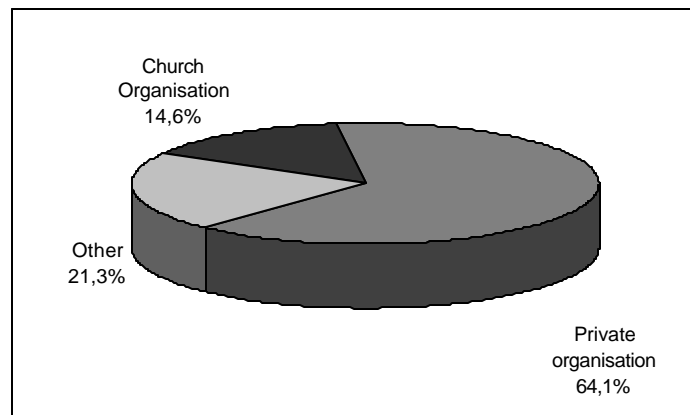
⁴ In Correia (1999), we also find two *Misericórdias* founded before 1498. However, we can't be sure if we're talking about the same *Misericórdias*. The most plausible explanation is that there already existed a brotherhood that later became devoted to the Our Lady of Charity.

Church have been in the origin of great part of the *Misericórdias* (Graph 2). Crossing this information with the date of foundation, we observe that the weight of the fraternities in the creation of *Misericórdias* has been decreasing and that, in 20th century, all sort of origins occurred.



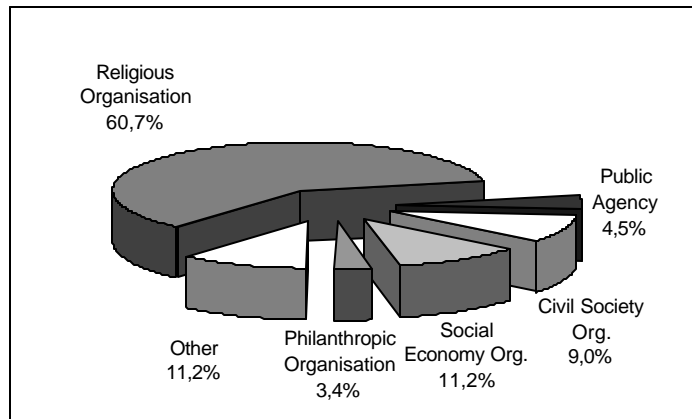
GRAPHIC 2- Origin of the *Misericórdias* (Pereira, 2000)

While answering the survey, the respondent was asked to classify the *Misericórdias'* nature. The possible answers were: private organisations, public organisations, Church organisations or another type of organisations (graphic 3). They also had to define the institution as a religious organisation, a civil society organisation, a public agency supporting the government, a philanthropic organisation, a social economy organisation or an organisation of another sort (graphic 4).



GRAPHIC 3 Nature of the *Misericórdias*, (Pereira, 2000)

More than half of the *Misericórdias* (60,7%) defined themselves as religious organisations, although considered having private nature (64,1%).



GRAPHIC 4 Defining the *Misericórdias*, (Pereira, 2000)

The Corporal Charity Works

Understanding the services provided nowadays turns it possible to identify the corporal charity works that have replaced redeeming the captives and burying the dead.

Survey's results show an institution clearly devoted to the aged and to childhood. Different variables confirm this conclusion: the number of facilities⁵, the number of consumers⁶, the number of workers⁷ and the weight of these activities on the budget. Thus, we can say that caring for the aged and for child are the new corporal mercies.

The allocation of great part of the budget to the financing of child and elderly care corroborates the results found on the number of consumers and workers. Those institutions involved in elderly care spend on average 64% of the budget financing this activity, with values varying from 3% to 100% (16 *Misericórdias* are exclusively dedicated to the aged). Childcare receives, also on average, 27% of the budget of the *Misericórdias*. 90% of those *Misericórdias* working with children devote less than 50% of its budget and none declared exclusively caring for children.

***Misericórdias'* Dimension**

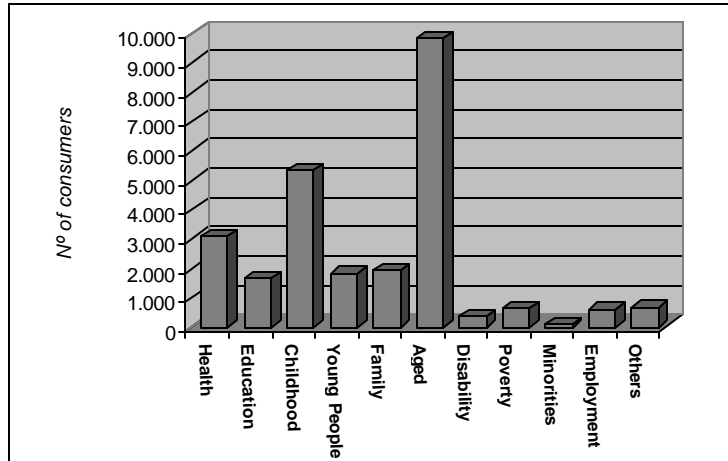
Measuring the dimension of the *Misericórdias* by the number of consumers, we find institutions with very different dimensions: the number of consumers varies between 9 and 2410. On average, each *Misericórdia* provides services to 320 consumers. Approximately half of the *Misericórdias* serves less than 200 consumers and 90% have less than 700 consumers (Graphic 5). Obviously there are great differences among the *Misericórdias* of the sample.

⁵ In the *Survey on Portuguese Misericórdias*, within the facilities owned by the *Misericórdias*, those devoted to child and elderly care are the most representative (like day-care centres for the aged and for children). Data reported in Nunes et al., 2001 corroborates this conclusion: from the 761 facilities, 52,2% are addressed to the elderly and 43,4% to children and young people and only 4,4% to the handicapped, family, community or other.

⁶ The specialisation of the *Misericórdias* towards these two social groups is also confirmed by the distribution of the number of consumers per activity. The elderly, followed by childhood, are superior in number when compared to other groups (Graphic 5).

⁷ In 1993 they employed 13812 persons, 5259 working with the elderly and 2583 with children (Nunes et al., 2001).

These differences are also present in the number of workers. The survey shows one *Misericórdia* with only one worker and another with 308 employees. Within the *Misericórdias* that declared having workers⁸, practically 1/3 have less than 15; half of the *Misericórdias* have less than 40 workers and only 3 have more 150 employees. Within those that reported having employees, the average value is 51 workers.



GRAPHIC 5 –Consumers’ distribution per activity, (Pereira, 2000)

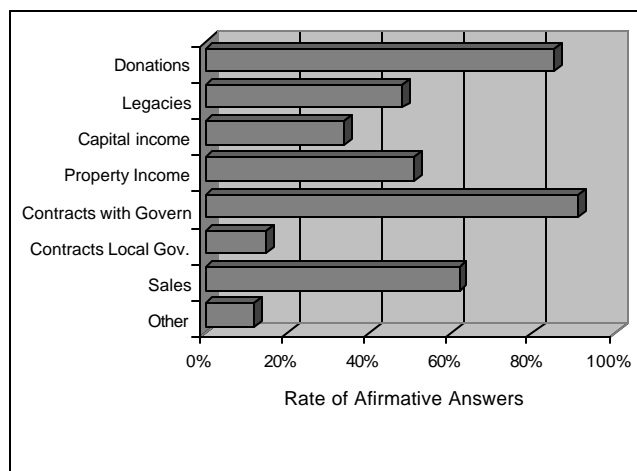
Revenue Sources of the *Misericórdias*

At this point, we looked for to identify the main revenue sources of the *Misericórdias*. It was, thus, asked for to the *Misericórdias* to confirm or deny having specific revenue sources: donations, legacies, capital income, property income, contracts with government, contracts with local government, sales or other sources.

Almost the totality of the *Misericórdias* revealed counting on two sort of financing: contracts with the government (91% of the *Misericórdias*) and donations (85%)⁹. For beyond these two forms, other two have been presented for more than half of the *Misericórdias*: the financing for property incomes and sales. With lesser expression, we observe the contracts with the City councils. Property income and legacies are both more important than capital incomes (graphic 6).

⁸ The results on workers must be viewed carefully as there were found some problems in the answers to this question.

⁹ In a similar survey, Espaço e Desenvolvimento (2002) the results were rather like in what matters to revenue sources: Contracts with the government (97,8%), subscriptions from associated members (70%) and revenues from sales (56,7%) are the more usual financing sources.



GRAPH 6- Revenue Sources (Pereira, 2000)

In relation to the weight in revenue of each one of the financing sources, on average, those that represent greater percentage are the contracts with the government¹⁰ and sales¹¹, followed by donations¹². Legacies, Property Income and Capital Income, although not representing a valuable source of financing, are seriously grounded in the *Misericórdias* History¹³ (Table 1).

Revenue Sources	% of Revenue (Average)
Donations	8,997%
Legacies	2,489%
Capital Income	2,439%
Property Income	4,440%
Contracts with Government	48,098%
Contracts with Local Government	1,011%
Sales	25,88%
Other	6,872%

TABLE 1- Revenue Sources, (Pereira, 2000)

¹⁰ On average, almost 50% of *Misericórdias*' revenues result from contracts with the government. However this average value hides very different realities. Some *Misericórdias* rely on government for 90% of their revenues and others are completely independent from the state in what matters to financing. Those not being financed by government contracting have donations and sales as their main revenue sources.

¹¹ Responsible for 25% of revenues (average values).

¹² Although there are *Misericórdias* where the donations account for 90% of revenues, on average, donations correspond to 9% of financing sources.

¹³ *Misericórdias*' historians, like Freire (1995), tell us that during the time of the overseas expansion, those who became rich felt the obligation to donate to the *Misericórdias* part of their property. More recently, emigration to European countries, or to Australia, also corresponded to support, on the part of those who left, to the local *Misericórdias* (in some Portuguese villages the raise of new Holy Houses was funded by money coming from the emigration). Part of these legacies is nowadays a source of revenue in the form of property and capital incomes.

Recent Evolution of *Misericórdias*' Activity

When questioned on the evolution of their activity, the answers were sufficiently clear: not even one *Misericórdia* declared to have diminished its activity and 91% stated that in the last four years the activity has augmented (the remainders maintained the activity level)¹⁴.

Within the possible causes of an increase in the activity were the increase on the demand, the increase of own resources, the increase of external support, contracting with government, European Union Programs and requests from local government.

Among those increasing their activity, 77% agreed on attributing greater importance to the demand increase, and 78% to contract celebration with public agencies.

Some other questions allowed us to identify the factors that seriously conditions activity (in this case we relate to all the *Misericórdias* and not only to those who have declared an increase in the activity). Government support, economic situation and the increase in social precariousness were the factors identified as more important in the evolution of the activity of these institutions. While competition was, clearly, the less valued factor.

Spiritual Charity Works

Finally, we looked for a sign that the *Misericórdias* were still devoted to the accomplishment of spiritual charity works and that its activity goes beyond providing social services.

For instance, we found that 80% of the *Misericórdias* participate in civic activities intended to defend social and humanitarian causes and that 58% of the *Misericórdias* consider a priority in terms of future action the restoration of moral and ethical values.

We conclude that beyond the services rendered by *Misericórdias*, this institution follows a common set of values and looks forward to preserve them.

The *Misericórdias* on Portuguese Social Policy

Complementing survey's results with figures from the *Carta Social*¹⁵ we are able to briefly characterise the role of the *Misericórdias* on Portuguese social policy.

In Portugal, the direct public supply of social services¹⁶ is almost residual, representing 2% of the total number of institutions. Among all the institutions providing social services, 76% are non-profit organisations and 22% for-profit institutions. The number of facilities confirms this reality: 79% are owned by non-profits, 15% belong to for-profit institutions and 6% are state owned.

Although the government doesn't provide directly social services, the most important financing source for almost all non-profit institutions are contracts with the Ministry of Social Security (transfers to non-profits represent 70% of the Department of Social Action's Budget). A good example of this reality comes from the analysis of the *Survey on the Misericórdias* as seen above.

¹⁴ The number of workers in the institution is also a good indicator of greater activity. As stated in Nunes et al.(2001), from 1993 to 1997, the number of workers increased 25,5%, and in 1997 they already employed 17331 workers.

¹⁵ *Carta Social* is a recent Government's publication characterising the Portuguese supply of social services. Those services include caring for childhood, for the young people, for the aged, for the handicapped and for dependent people, supporting the family and the community, providing services to those addicted to drugs and to people infected with HIV/AIDS.

¹⁶ Here measured by the number of organisations.

In *Carta Social*, 310 *Misericórdias*¹⁷ are reported in a total of 2813 nonprofit organisations providing social services (*Misericórdias* represent 11% of the total). However, their weight in the number of facilities is greater. They own 17% of non-profit facilities providing social services (representing 8% of the supply in Portugal).

NON-PROFIT GOVERNANCE LITERATURE

In Portugal, the research on nonprofits is taking the first steps and many would be the topics we could choose to our research. The richness of the *Misericórdias* case provides sufficient data to many research fields within non-profits theory.

Confronted with the increase of governance debate in non-profit literature, it seemed to us that this would be an interesting discussion if applied to the *Misericórdias*.

The importance of governance issues on non-profits research is generally attributed to two kinds of questions, pointed in Millstein et al. (2000):

- 1) the lack of an active ownership market among non-profit that accentuates the role of internal governance practices¹⁸;
- 2) the complexity of the products and services created by non-profits and the non-existence of an unequivocal performance measure (like profits) that exerts greater pressure on the governance skills of the non-profit board¹⁹.

Literature on non-profit governance is vast and we selected a group of questions that looked like being applicable to the *Misericórdias* case. As so, we reviewed the discussion about three sorts of questions:

- 1) the governance model (Moura, 2000);
- 2) specific governance problems arising from the not-for-profit nature (Glaeser, 2002; Young, 1996);
- 3) roles performed by non-profit boards (Young, 1996; O'Regan & Oster, 2001)).

In the first case, we are in the presence of a discussion on the strengths and weaknesses of the agency and the stakeholder models when applied to non-profit institutions. Discussing the second point, authors argue that the non-existence of shareholders, the volunteer nature of board membership and, in some cases, the strong presence of government financing, rise unique problems to non-profit governance. The third question refers to boards seen as “boundary spanners”, their interpretative role and their equilibrating force in crisis.

The Governance Model

As stated in Moura (2000), generally, we can find two dominant governance models: the *Agency Model* (or *Shareholder Model*) and the *Stakeholders Model*.²⁰

¹⁷ Those *Misericórdias* providing services not directly related to social services are not included in this figure (for instance those in health activities)

¹⁸ Fama and Jensen (1983), cited by Millstein et al (2000).

¹⁹ OSTER, Sharon (1995), *Strategic Management for Nonprofit Organizations*, (Oxford University Press.), cited by Millstein et al (2000).

²⁰ Jensen (2001) purposes a theory that uses the same structure from *Stakeholder Theory* but accepts maximisation of the long-run value of the firm as the criterion for making the trade-offs among its stakeholders. The author calls this theory the *Enlightened Stakeholder Theory*.

In the first model, the purpose of the corporation is to promote shareholder value. Sustained by the agency contract, we find two actors: the principal (the owner) and the agent (board members) and only these actors will be represented in governance bodies.

In the case of non-profit organisations it's very difficult to identify the principal. Consequently, the agent will have, at the same time, the power to define the organisations' mission and to choose the better way to accomplish that mission. Clearly we have a situation where the control over agent performance is very difficult.

In the *Stakeholder Model* the purpose of the corporation is to serve a wider range of interests. The model claims that the organisation results from the existence of different interest groups like employees, shareholders, management, creditors, customers, suppliers and local community. The board membership will reflect these differences.

Specific governance problems arising from the not-for-profit nature

Glaeser (2002) identifies one of the differences between non-profit and for-profit firms seen as important in explaining the behaviour of the first: non-profit firms do not have owners. "The non-distribution constraint ensures that the people who fund non-profits are not residual claimants to the revenues and assets of the non-profit, but the limits on the powers of donors go beyond limiting the ability of donors to collect rents. The people who fund non-profits, through donations, often don't have control rights over the firm at all." (Glaeser, 2002, p. 2). Although non-profit firms do have boards, often partially composed of donors and their representatives, Glaeser argues that "non-profit boards are ultimately not accountable to shareholders or donors and they are generally self-perpetuating." (Glaeser, 2002, p. 2). These and other facts result in an enormous degree of board autonomy.

If the maximising of investors and society interests from for-profit managers is questionable, what will we think about non-profits?

Adding to this problem, the difficulty in the identification of the non-profit's objective function has implications for governance (Hermalin and Weisbach, 2000). While for-profit firms maximise the present value of economic profits, "a non-profit's objective function is an endogenous choice not clearly specified by economic theory" (p. 29)

Trying to identify the influence of the differences between non-profits and for-profits, we'll have to broaden our perspective about governance. According to Young (1996), "Governance is not just about boards of trustees" (p. 2). Customer sales, donors, government and umbrella associations are also mechanisms of non-profit governance.

Recognising as well the lack of an unequivocal principal as it happens in for-profits, Gangl (1998) also postulates a broader governance concept: "...in a nonprofit organization, members (who may or may not elect the board of directors), the public and/or the government bodies such as state attorneys general may play a role somewhat analogous to that of the shareholders of a for-profit organization" (p. 11)²¹.

Following Young (1996), for those organisations that sell their services, the **markets** may provide clear signs helping governance. Changes in donations or in volunteer labour will

²¹ However, Gangl (1998) alerts for the fact of those groups being traditionally less motivated and effective in monitoring non-profit boards. As nonprofit boards sometimes elect their own members, a culture of stewardship, diligence and knowledge on the part of the board becomes all the more important for non-profits. "Ensuring that the mission of the organization is followed and that its beneficiaries are well served falls principally on the board." (p. 11)

provide feedback from board performance. Under the same extended governance concept the author includes **government regulation** and the role of **umbrella organisations**. Associations and federations, according to Young, help provide both top-to-bottom and bottom-to-top accountability.

Accepting this extended governance concept, O'Regan & Oster (2001) explore in their paper the relationship between non-profit board governance practices and the government contracting²². They found significant differences in board practices as a function of government funding level. Those which receive high government funding are significantly less likely to engage in traditional board functions while more likely to engage in financial monitoring and advocacy. In these contracts we may find a partial answer to the question present in the *Agency Theory* discussion: who is the principal? In O'Regan & Oster's words: "...the government enters a kind of agency relationship with the non-profit and in this relationship the board of trustees of the non-profit has a role to play." (p. 3). The authors conclude that substantial government funding may have an effect both to the level and type of non-profit activity. They defend that some board activities may be crowded-out, when competing for board resources, specifically operational functions less valued than fiduciary functions by government agencies. In what respects to the level of activity, the authors point that some board members may treat government contracts as substitute for self-governing, reducing their involvement in board functions more generally. This can be a serious negative effect of government funding.

The importance of elements other than government in non-profit governance is addressed in Glaeser (2002). The author proposes a model that focuses on whose preferences (between managers, workers and customers) come to dominate the firm's process of decision-making. One of the conclusions is that elite **workers** preferences tend to be more important in non-profit than in for-profit firms. However, in the case of lower-level workers, or other employees who are physically isolated from the manager, this conclusion is not applicable. This difference depends upon the richness of the institution, poor non-profits closely resemble for-profit firms. This control over the working environment compensates worker's lower wages offered by non-profits²³. The model also predicts that non-profits will be less oriented towards the interests of consumers and their policies will be much less likely to shift with the changes in consumer demand. Of course, this will

²² More research on the topic: Sidel and Harlan (1998). They argue that the identification of who participates and how they interact contributes significantly to an explanation of how non-profit relations with government are conducted. Following this idea, they propose four patterns of governance activity: shared governance, staff-dominant governance; board-dominant governance, bystander. They find that one in three non-profits had staff-dominant governance, being a clear indication that members of executive staff are active participants in managing relations with government.

²³ On this topic Ruhm and Borkoski (2000) have a different point of view, although also arguing that non-profit workers are paid in competitive labour markets and do not "donate" labour to their employers by accepting lower wages. Notwithstanding the fact that non-profit employees earn less than their counterparts with similar observed attributes, the authors point that non-profit jobs require fewer hours and are concentrated in a small number of industries that tend to offer relatively low pay but are likely to be desirable places in which to work. However, the question persists: Why are non-profit jobs disproportionately located in low-paying industries? The most likely possibility is that these sectors perform "socially desirable" activities (e.g. helping the sick or teaching children), so that employees are willing to work for reduced compensation. In other words, individuals accept lower wages not because the employer is a non-profit, but rather because of the specific goods or services provided. Brickley and Von Horn (2000) refer to "some evidence that nonprofit organizations attract employees who derive utility from providing philanthropic services" (p. 13). They support this argument on two papers: Rawls J., Ullrich R., and Nelson O., 1975, "A Comparison of Managers Entering or Reentering the Profit and Nonprofit Sectors," *Academy of Management Journal* 18, 616-623 and Weisbrod, B., 1983, "Nonprofit and Proprietary Sector Behavior: Wage Differentials among Lawyers," *Journal of Labor Economics* 1, 246-263.

depend on market competition. Resulting from the model we also have the proposition arguing that non-profits will be much more likely to shift policies with changes in their boards.

Roles performed by non-profit boards

Young (1996) identifies in literature three different roles attributed to non-profit boards. Referring to Melissa Stone's work (Middleton, 1987), states that she identifies non-profit boards as "boundary spanners". Board members, being at the same time inside the organisation²⁴ and in its external environment²⁵, mediate internal and external interests.

Alluding to Smith's²⁶ ideas, the author presents the interpretative role of non-profit boards. Under this perspective, "trustees must use the mission of the organisation as established historically by founders and donors. They must also assess changes in the environment and reinterpret that mission in light of contemporary needs" (Young, 1996, p. 2)

A third role reveals itself as a reactive one, and not proactive, behaviour. Mentioning Miller et al.'s²⁷ work, Young states that non-profit boards tend to be relatively dormant most of the time. However, in crisis, they act in a way that allows the organisation returning to a stable equilibrium.

O'Regan & Oster (2001) also address the roles performed by non-profits' boards. Besides the monitoring functions, they include in the operational roles:

- 1) fund-raising, both in terms of personal giving and in terms of soliciting others;
- 2) mediating the relationship between non-profits and other organisations in their environment;
- 3) participating in the definition of strategic planning;
- 4) in smaller organisations, participate directly in service provision.

From this brief survey on Governance Literature, we select two questions to be discussed in the case of Portuguese *Misericórdias*:

- choosing between the *Agency Model* and the *Stakeholders Model*. Which one better describes governance in Portuguese *Misericórdias*?
- are there other mechanisms of non-profit governance besides board of directors? (how can a broader view of governance be understood in the Portuguese *Misericórdias* case?)
 - the role of government;
 - the role of non-profit workers;

²⁴ In Middleton (1987), "Boards of directors are part of the organization because they are responsible in the broadest sense for its well-being and for ensuring that it fulfils its stated purpose. They are part of the external environment in the sense that their members are drawn from and often have primary affiliations to other groups in the community. Thus, boards, as boundary-spanning and control units, have an important role in regulating exchanges of information and resources across boundaries." (p.141)

²⁵ In Middleton (1987), environment means all external elements that are salient to the organisation as a whole, its subunits, or its members in their performance of activities that are organisation related but that fall outside its authority (at this point the author refers to Thomas, David (1984), "Reflections on the Relationship between Organizations and Their Environments: A Micro-level Perspective", Unpublished manuscripts, Yale School of Organization and Management). These elements include other organisations, such as competitors and funding and regulatory agencies, as well as unorganised groups, such as donors and beneficiaries.

²⁶ SMITH, David H. (1992), "Moral Responsibilities of Trustees: Some first Thoughts", *Non-profit Management and Leadership*, 2 (4). Referred in Young (1996).

²⁷ MILLER, Lynne E.; KRUGER, Evonne J.; GAUSS, Marianne S. (1994), "Non-profit Boards and Perceptions of Funding", *Non-profit Management and Leadership* p, 5 (1). Referred in Young (1996).

- the role of “umbrella organisations”;
- the role of donors and consumers.

GOVERNANCE IN PORTUGUESE *MISERICÓRDIAS*

We now turn to the characterisation of some governance related issues in the *Misericórdias*. In the case of Portuguese *Misericórdias*, we can consider that the main characteristic of the governance model is its historical nature. The governance bodies and the relationship between them are unchanged, in some cases, for 500 years.

Misericórdias' mission was settled on their *Compromisso* (undertaking), adopted when they were founded. Those norms guide the activities, the Governing Bodies and the Brotherhood, still inspiring *Misericórdias*' functioning.

We can describe as follows the common *Misericórdias*'s governing bodies, usually elected for a three-year period:

- Brotherhood (General Assembly) elects
 - Administration²⁸;
 - Board of Directors²⁹;
 - Governing Chapter³⁰.

In the *Survey on Portuguese Misericórdias*, cited above, 97,8% of the respondents, confirmed the existence of these governance bodies. The Board of Directors has three to twelve members, the mode (35% of all cases) being a board with seven members. In 68,2 % of the cases, the members are appointed by General Assembly's election. To notice that only 56,8% of respondents stated the existence of a professional staff supporting the execution of organisation's projects.

From literature survey, it seems to us that *Misericórdias*' doesn't provide a standard governance model. It is difficult to identify the “actors” presented in literature in the Portuguese case and specifically in the *Misericórdias*' case. The CEO may not have a counterpart in the *Misericórdias*' governance model as the President of the Board of Directors (the *Provedor*) usually assumes executive roles.

The *Survey on Portuguese Misericórdias* provides information on some other aspects related to governance. Analysing the answers to a group of questions that intended to characterise organisational features, we conclude: 61,5% of the *Misericórdias* stated that they have a “mission”, the organisation explicitly acts with intention of publicising it and in 93,8% of the cases the mission exists for more than 3 years from now.

Data resulting from *Espaço e Desenvolvimento* (2002), provides information on some personnel characteristics of the board of directors' members. They tend to be aged, with low instruction levels, working on volunteer and part time bases in the institution.

They are seen by the employees (the survey only considered qualified workers) as suffering from lack of specific training what is considered by workers as an important factor of strangulation of the development of this type of institutions

²⁸ *Mesa da Assembleia*, they co-ordinate General Assemblies.

²⁹ *Mesa Administrativa*, those seven members choose among them the head of the board (*Provedor*) that will become the institution's chief executive.

³⁰ *Definitório* it's a supervisor council.

Communication Mechanisms

Both surveys give some insights into this question. The *Survey on Portuguese Misericórdias* reveals that the organisations don't have a newsletter (mode), 70% of the respondents organise an event to gather all the employees where future strategies are explained and 92,8% of the *Misericórdias* don't have a specialised structure responsible for the information systems.

Results from Espaço e Desenvolvimento (2002) report a similar reality. Many of the respondent institutions do not possess a formal and structured internal system of communication, although 82 institutions (for a sample of 90) already follow a simple project based upon meetings. For 55 of them, those meetings occur with some frequency and occasionally for the other 27. Informal conversation is the secondly used mechanism (55,6%) while informative notes appear in the third position with 35,6% of the cases. The trend is, therefore, for the formalisation of a simple scheme that functions by the accomplishment of meetings and the auscultation of each technician. However, at the moment the internal communication is understood as mere way of information transmission.

The Process of Decision Making

Data from Espaço e Desenvolvimento (2002) reveals that usually the process of decision making assumes a formal nature and is relatively centralised and hierarchic. However, this varies between those directors that share the process with qualified employees and others that make all the decisions on their own. However, data also presents cases where the process of decision making is democratic and the board decisions are based upon qualified employees' suggestions. There are still cases where employees' teams possess great autonomy and only the important decisions are left to the board.

CONFRONTING KEY LITERATURE CONCLUSIONS WITH MISERICÓRDIAS' GOVERNANCE

Some results from literature survey raise interesting points for discussing within the case of Portuguese *Misericórdias*. This discussion intends to be the first step on a potential research project. Information will only be used in a descriptive way, although available data enabled a more rigorous analysis that surely should include econometric procedures. The conclusions of this first approach must be conducted in that way.

We summarise some of the relevant issues as follows.

Choosing between the *Agency Model* and the *Stakeholders Model*. Which one better describes governance in Portuguese *Misericórdias*?

Analysing the results from *The Survey on Portuguese Misericórdias*, Moura (2000) argues that we are in presence of an *Agency Model* of governance.

In our opinion, general results from both surveys indeed reject the existence of a *Stakeholder Model* of governance. As we shall see in the next topic we don't find in the *Misericórdias* functioning conclusive signs of an active participation of other agents other than board of directors in the governance decisions.

Although Moura (2000) enters a normative discussion on whether the *Agency Model* best serves the governance of the *Misericórdias*, we rest aside that debate while recommending Jensen (2001) for further reading on this topic.

Can we identify other mechanisms of non-profit governance besides board of directors? (How can a broader view of governance be understood in the Portuguese *Misericórdias*' case?)

The role of government

As we saw earlier while discussing the results from the *Survey on Portuguese Misericórdias* these institutions largely lay on public support. Contracting with government³¹ is the more important source of financing to the average *Misericórdia*. As others, Portuguese public agencies do impose conditions while contracting with non-profits. The way this conditioning attitude does influence organisation and specifically board of directors decisions is not addressed on Portuguese research on non-profits.

As O'Regan & Oster (2001) conclude that substantial government funding may have an effect both to the level and type of nonprofit activity, this remains a topic for further research.

The role of non-profit workers;

Glaeser (2002)'s model predicts that employees (qualified workers) become more important in the decision making process and that board of directors' decisions incorporate their preferences. In our opinion, this cannot be stressed to Portuguese *Misericórdias*. Some results already presented on the decision making process and the communication mechanisms contradict this hypothesis. Also the fact that the *Provedor* accumulates many functions including the executive ones shows that, generally, we are not in presence of institutions living democratic processes where employees would have space for their "lobbying". However, data also shows some signs of change as stated before.

The role of "umbrella organisations"

Portuguese *Misericórdias* are gathered in an umbrella organisation: *The Union of Portuguese Misericórdias*. It would be interesting, as we don't have any information on that, to analyse the role played by this organisation in governance decisions, the contracts underlying their relationship and the way top-to-bottom and bottom-to-top influence is exercised. Almost all *Misericórdias* are also members of another organisation: *The Union of Portuguese Social Solidarity Institutions*. This last *Union* gathers many organisations assuming different organisational forms from associations to mutualities and *Misericórdias*. The double membership statute surely is an interesting research issue. It would be possible to identify how different contracts between the member and the umbrella institution operate (or not) different governance outcomes.

The role of markets: donors and customers

Justifying his surprise on the well functioning of non-profits, Glaeser (2002) argues that competition in the market for customers and donors is ultimately more important than corporate control and ultimately serves to keep non-profit firms reasonably honest.

We can't say that Portuguese *Misericórdias* subscribe this statement. As noted above, answers from the *Survey on Portuguese Misericórdias* show that they deny competition as a factor conditioning their activity (this conclusion results from two different survey's

³¹ Contracting is not the only source of *Misericórdias* public financing as the construction of facilities may also be supported by government.

questions). In what matters to the competition for donations, facts also contradict that argument. Although 85% of respondents say that are financed by donations, when asked about the importance they assign to this revenue source, the answers will appear clearly under government financing and revenues from market activities. The average weight on revenue clarifies this result: only 9% respects to donations. Classifying this revenue according to its importance to their activity, in an increasing scale going from 0 to 5, only 15% have chosen the 4th and 5th categories³². Within this reality it would be strange that the competition in donors market would become a “regulating” force.

What does remain inexplicable?

Moura (2000), discussing the appropriateness of the *Misericórdias*'s, and generally Portuguese non-profits, governance model, states: “Questions related to governance are understood as “legal questions” and not as “organisational questions”. This point of view implies that the institution has to adjust itself to the existing “model” not being allowed to choose the model that would enhance the performance.”.

The historical nature of *Misericórdias*' governance, as pointed above, also contributes to this reinforcement of the *status quo* in what matters to governance issues.

As in Glaeser (2002) words: “... perhaps the most surprising thing about non-profits is that they function as well as they do” (p. 3). If we can't find a reasonable explanation within governance literature³³ for this apparent success of the *Misericórdias*³⁴ it seems to us that something remains inexplicable.

Some alternative explanations, to the best of our knowledge not yet tested in literature, are pointed by Moura (2000) when faced with the *Misericórdias* reality. The author justifies the “success” arguing that we are in the presence of institutions where the mission is very clear and still guiding their activity. Moura raises a hypothesis: it's possible that in these cases governance questions are not as important as in those cases where the mission is not so strong.

Surveying literature on non-profit governance left us with a feeling of “dissatisfaction”. In our opinion understanding the nature of the decisions made by the boards of director's members would be a very important contribution to non-profit governance theory.

We clearly seem to face a governance model where the *Provedor* assumes an overwhelming importance. Theory postulates this conclusion in non-profits³⁵ and the lack of regulatory forces in the *Misericórdias* as above concluded seems to corroborate it³⁶.

In a presence of a “personalised governance model” the way the *Provedor* thinks and acts makes all the difference.

³² 75% have chosen the same categories referring to state financing and 48% referring to revenues from sales.

³³ Obviously this conclusion is abusive, as the purpose of this paper was not to test those literature hypotheses.

³⁴ In the case, the success refers to the longing existence of this institution and its actual role on Portuguese social policy.

³⁵ Glaeser and Shleifer (1998), “Not-for-profit firms are often controlled by entrepreneurs, and not by their employees or customers”, (p. 21).

³⁶ We are in the presence of a governance model where decision and risk-bearing functions are not separated as Fama and Jensen (1998a) contend. This also respects the separation of the decision management and decision control. They argue this situation will bring apart agency problems. This will not be the case of small noncomplex organisations where it is efficient to allocate those functions to the same agents. This however, is not the case of the *Misericórdias*, as the authors postulate the separation of the decisions in situations where residual claimants have no role in decision control.

In our opinion, research should also focus on the decisions and motivations of board of directors' members. In literature we can find a discussion on the altruist nature of the non-profit entrepreneur. Glaeser and Shleifer (1998) agree that many founders of non-profit firms are motivated by public spirit and altruism than just profits³⁷. Fisman and Hubbard (2002) argue that the entrepreneur's altruistic motivations are: (1) a desire to provide a product at the low marginal cost of production, perhaps due to externalities created by the good (the authors suggest Weisbrod, 1988³⁸); or (2) an interest in signalling the production of a high-quality good where quality is difficult to observe or verify (Hansmann (1996)³⁹ and Glaeser and Shleifer (2000) are proposed for further reading by the authors).

Entrepreneurs choose the non-profit status if the benefits of committing to higher quality outweigh the cost of having to take their net revenues in the form of perquisites rather than cash [Glaeser and Shleifer (1998)].

Rose-Ackerman (1996) also presents an alternative proposition while trying to explain the nature of the non-profit entrepreneur (in case "ideologue"): "...An ideologue is a person with strong beliefs about the proper way to provide a particular service". This ideologue will choose the non-profit form due to legal constraints imposed on the non-profits. Organisations' mission may be an advantage to those who hope that their ideas and projects will outlive them. It is clear that much non-profits entrepreneurship is ideological in character.

In spite of those approaches to the nature of board members' motivations we think it would be of grater interest to develop a general framework enabling a more comprehensive understanding of decisions and motivations of board members.

In "The Nature of Man" (Jensen and Meckling, 1994) we found some interesting insights on this subject. The authors present a model, the Resourceful, Evaluative, Maximizing Model (REMM), which proposes itself explaining human nature. This model describes human beings stating that: "they respond creatively to the opportunities the environment presents, and they work to loosen constraints that prevent them from doing what they wish. They care about not only money, but about almost everything- respect, honour, power, love, and welfare of others" (p. 4).

Although not a complete description of human behaviour, the REMM, in authors' opinion, dominates all others as it incorporates the most important aspects of behaviour captured by other explanatory models⁴⁰.

The confront of the REMM model with other models rises a set of characteristics that captures the essence of human nature. While analysing the case of the Portuguese *Misericórdias*' boards of directors, some of those traits come to be very helpful.

In Jensen and Meckling (1994) discussion on the role of the sociological model in explaining human behaviour, they argue that these models foresee resigned individuals. Viewed as a product of their cultural environment, the individual behaviour is determined by the taboos, customs, mores and traditions of the society in which they were born and

³⁷ However, authors state that they believe one can explain many crucial aspects of non-profit behaviour, including which markets they operate in, without relying on the assumption of altruism. Also defending the relying of altruism assumption, Brickley and Von Horn (2000) argue that research on organisational incentives in non-profit hospitals refutes this conclusion

³⁸ WEISBROD, Burton (1988), *The Nonprofit Economy* Cambridge, MA: Harvard.

³⁹ HANSMANN, Henry (1996), *The Ownership of Enterprise*, Cambridge: Harvard University Press.

⁴⁰ The alternative models of human behaviour discussed in the paper are: the REMM, the Economic Model, the Sociological Model, the Psychological Model and the Political Model.

raised. Alternatively, REMM model, also assuming that customs and mores do serve as constraints on human behaviour, recognises that individuals may choose violating them while incurring costs in many forms.

Applying to the *Misericórdias* case, we can think that the governance structure is a product of tradition and, like that, changing the *status quo* doesn't look like a simple job (according to the Sociological Model). Otherwise, suggested by the REMM, we can think of governance structure as a product of choices made in the last 500 years by the brothers involved. This slight point makes the difference. There is neither acquiescence nor compliance with the burden of tradition. Instead, the REMM model presents an individual (in case, individuals) that has chosen (here we find the difference) to maintain the rules. Jensen and Meckling argue that social practices, customs and mores "...serve as an external memory device that aids in storage of knowledge about optimal behaviour (...). But if the group or organization is to prosper- and, indeed, if the society itself is to survive- these cultural practices or values must adapt to approximate optimal behaviour..." (p.16). In our opinion it may not be abusive to think that, in the *Misericórdias* case, the costs of changing a secular tradition have been evaluated as greater than the benefits it would bring to the institution.

The same model foresees that changes in the underlying costs and benefits of various actions will face the individuals with a conflict between new and optimal forms of behaviour and culturally accepted but inefficient forms. In that case the individuals, through experience, education and death, gradually accommodate the new behaviour in culture. In the case of the *Misericórdias* it may signify that in the future, as conditions alter (like technology, knowledge and the environment), it will be possible to think of a re-evaluation of costs and benefits resulting from changing the rules.

In authors' words we can find a similar point of view: "The shared beliefs, attitudes, customs, and values of people within an organization can be a critical determinant of success or failure. And although an organization's culture constitutes a barrier to valuable innovation at any given moment, culture can be molded through conscious, co-ordinated effort over time." (p.19).

The identification of costs and benefits resulting from the change of governance model and the analysis of the conditionings of actual evaluation of those costs and benefits are interesting research fields. Being able to understand why boards of directors and brotherhoods in general maintain unchanged the governance model is the first step to realise what must happen to change that. As REMM predicts that cultural factors are reflected in human behaviour, it would be very important to find which conditionings must have to change in order to alter costs and benefits' evaluation.

In what respects the discussion of the psychologist model in opposing to REMM, the "needs" of individuals are taken into account⁴¹. The authors argue that this model doesn't allow substitution between needs (they prefer the word "wants"). Here we also find a clue for further research. Which motivations support the board of directors' decisions? How do they operate substitutions between their "wants"?

From the confront with the economic model, REMM takes the assumption that people are resourceful, self-interested, maximiser, but rejects the notion that they are interested in only money income or wealth. Issues raised from non-profit literature in general subscribe this trait of human nature present in the REMM Model.

⁴¹ Referring to Maslow's approach the authors present the following "needs": physiological (food, water), safety, love and self-actualisation

Compared to the political model, REEM also takes on the assumption that people have the capacity of altruism. They care about others and take their interests into account while maximising their own welfare. REMM rejects, however, the notion that individuals are perfect agents⁴². A model assuming the capacity of altruism is indeed essential to define the nature of board of directors' membership. But if there are no perfect agents, we would need to identify the "own interests" maximised by them.

CONCLUSION

We conclude from this first approach that institutions like Portuguese *Misericórdias*, unique within non-profits, can provide valuable fields for research. Preliminary results from our analysis show that some conclusions from non-profit literature (specifically governance literature) are not applicable to the Portuguese *Misericórdias*. Those contradictions between the literature and the reality of a not-for-profit institution provide an interesting point for further research.

We consider of greater importance the development of a model explaining the motivations and decisions of non-profits board of director's members. The prominent role they perform in non-profit governance (predicted by theory and suggested by survey results) largely justifies it.

As only descriptive statistics are used, this paper is far beyond standard analysis on non-profit governance. It thus must be viewed as a first step aimed at identifying relevant research hypothesis.

⁴² Perfect agents would be those maximising the "public good" rather than his or her own welfare. This Human Being maximises the principal's preferences while, if necessary, denying his or her own.

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