

## Development of NPO in New Reform Environment

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### Abstract

As a new starting point of reform, The Third Plenary Session of the 18<sup>th</sup> Central Committee has put forward new measures and requirements on the development of non-profit organizations (NPO). Meanwhile, in the new environment of further accelerating government function transformation, NPO should also realize its positioning along with the environment. As a “third sector”, NPO plays an increasingly significant part between government and enterprises, as well as government and the society. Faced with the new starting point of reform, NPO are still fighting against a good number of problems for development. The paper integrates with new reform environment, discovers factors that hinder NPO development and comes up with specific suggestions.

**Key word:** NPO; Transformation of government function; Environment

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### INTRODUCTION

With the continuous in-depth course of the transformation of Chinese government function, NPO arises just in time and grows rapidly as a new organization form; it has also become an important carrier for the government function transformation in undertaking social affairs that the government no longer takes charge, as well as a significant passage through which the government exits the society.

## 1. RELATED CONCEPT DEFINITION

### 1.1 NPO

American scholar Wolf Thomas once made a definition on NPO: “NPO takes up the mission of public service, it has to be put on government records and accept restrictions by related laws and regulations; it has to be a non-profit or charity organization, and operates without personal interest or financial profit. Its incomes enjoy the privilege to relieve from the burden of government taxes and a special position in law, with its donation and contribution free from taxes.” Referring to the definition of NPO by domestic and foreign scholars, NPO can be regarded as a third sector different from government and enterprises; actually, it covers “community organization”, “public welfare group”, and “charity organization” and is defined as: NPO refers to independent organizations that are qualified with legal personality, take up public service and enjoy duty free preference that do not aim for profit or distribute organization surplus to internal members.

### 1.2 Transformation of Government Function

Transformation of government function means, in a certain period of time, state administrative organizations transfer and change their related obligations, functions, range of action, contents and methods according to national and social demands for development, including changes of administrative authorities and obligations (administrative matters, details, range, intensity), transformation of administrative roles (leading and supporting roles), as well as changes of administrative methods, ways and patterns. In other words, to transfer the substantial and complicated social services and specific duties on market control of the almighty government to the society and market through institution reform and organization adjustment, let NPO play its part and market realize resource allocation and reorganization, in order to pursue a kind of social self-management.

## 2. DEVELOPMENT AND CURRENT SITUATION OF NPO

From the establishment of PRC to the end of 1970s, China's highly centralized political system made the government comprehensively control over social organizations; with the calling of The Third Plenary Session of the 11<sup>th</sup> Central Committee, the policy of reform and opening up gradually came on the stage, national power began to withdraw from certain fields and the situation of state monopoly started to change, in that gradually weakening the control over social organizations and the society beginning to enter a transitional period. This provided a favorable space for the survival and development of Chinese NPOs, since when they reappeared and acquired the strong support of the government. Our rapidly-developed NPOs mainly included health care, culture, education and community, which helped boost the development and progression of the society. Compared to the great population gross, per capita NPO ran in short and even lagged behind developing countries such as India and Brazil; meanwhile, NPOs were also troubled with capital deficiency and imperfect organizational structure, all of which were things to be settled.

### 2.1 Development

Since the end of 1970s and the beginning of 1980s, NPO has made an unprecedented development in every country of the world. Differentiated from traditional governmental organizations and enterprises, NPO are in possession of organizational, private, self-governing, non-profitable and voluntary features and exerting an indispensable part other than government and enterprises in terms of mobilizing social resources, providing public products and services and promoting economic development.

The production and development of Chinese NPO go along with the failure of planned economy. Before reform and opening up, China carried out intensified vertical integration to the society and almost got in control of every social field, and such an intensified vertical integration left no room for the survival of NPO. With the gradual advance of reform and opening up, our country eased various social matters, and a civil society gradually came into being, after which NPO budded and rapidly grew. During the transformation course from planned economy to market economy, the collision and friction of old and new systems distorted the systems that limited all kinds of subject behaviors of social activities to a certain degree, resulting in the fact that certain subject behaviors deviate from the social value orientation. Consequently, for Chinese NPO, how to come into full play under the restriction of the practical social environment is of vital importance. Through folk earthquake relief work for Wenchuan in 2008, and the works of disaster relief, children caring and talent cultivation by One Foundation, we can see that our NPO are actually playing

an indispensable part in poverty alleviation, donation and relief other than the government and enterprises. But at the same time, there are still many NPOs conducting activities that go against the essence: on one hand, they perform their duties of managing the society and economy as government subsidiaries; on the other hand, they tend to pursue profits in management mechanism and operation pattern. Therefore, in the new environment of social development, how to drive NPO to set a clear vision on its position by the gradual transformation of government functions, is considered a major problem in the transitional period for our economic and social systems.

### 2.2 Current Situation

#### 2.2.1 Substitute of Government's "Intangible Hand" to Private Sphere

China's NPOs are generated by the government, who, in turn, decides their organizational goals, operating methods and staff composition. A large portion of NPOs are products of government's progressive streamline administration and institute decentralization; as the transformation of government functions is further deepened, NPOs undertake more and more responsibilities that were originally assumed by the government and become a substitute power, which helps build a function-optimized and efficient government. However, due to reform limitation, the government transfers a great part of authority, which should be returned to the market, to NPOs, who then serve as a substitute and perform governmental duties. As a result, NPO becomes an "intangible hand" of the government and reaches to the market, leading to a low-efficient reform. Under the original system of planned economy, government's reign over the economic and social spheres becomes the burden of NPOs with the authority transference, but the government still stands behind NPOs. So NPOs still intervene in the market while performing government duties, in order to satisfy the government's demand for self-interest.

The main reason that leads to such results lies in the deficiencies of subject for NPOs. China's NPOs contain top-to-bottom ones and bottom-to-top ones, of which top-to-bottom NPOs refer to those established or transformed by the government, including powerful administrations such as labor union, Communist Youth League and Women's Federation and semi-administrations such as Federation of Industry and Commerce and Consumers' Association, as well as public institutions performing administrative duties and those who don't perform the duties but the government wishes them to be subsidiaries in order to execute government orders and directly implement government and social policies. Such organizations do not have independent operating capability in many regards, and this leads to the fact that they depend heavily on the government in concept, organization, function and goals. For bottom-to-top NPOs, they need to

be instructed by the business administrative management department, meanwhile, they are also supervised by the registration authority. The double management system will hinder the highly efficient operation for NPOs.

### **2.2.2 Deficiencies in Public Benefit and Voluntariness of NPO**

Before reform and opening up, there was no meaningful “civil society” in China, so NPO cannot be given birth to. But after reform and opening up, NPOs were developing at a fast pace, but still lagged behind those of the Western developed countries in developing the scale. For a long time, our NPOs have been under the direct or indirect control of the government, following its will and arrangement and lacking independent voices in many aspects. Western NPOs are products of a healthily developed civil society and market system orientation, whereas due to deficiencies in democratic and market systems, China’s NPOs are mostly system transformations and disposal right of the government. This makes NPOs stand in a weak position in the relationship with the government and does not help play their functions to the full. A lot of public welfare NPOs aiming at serving the public turn against the primary tracks because of all sorts of practical influences and then weaken the public interest.

Most leaders of China’s NPOs are appointed by the government, even leaders of bottom-to-top NPOs are elected under the government supervision since the leaders must have the ultimate approval of the government. As a result, our NPOs are greatly troubled in HR management and do not have a relatively independent HR election system, so they grow more and more dependent on the government and become its subsidiaries. If over a half income of an organization comes from its membership fee and supporters’ donation, the organization is a NPO. But the incomes of Chinese NPOs are mostly from government’s sponsorship and profit, with membership fee and voluntary donation engaging in a rather small portion. Due to lack of fund, NPOs always resort to cater to the government in acquiring its assistance or gain profits by conducting operative activities. As for management, NPOs mostly execute government orders, and stand on behalf of the government will. Therefore, NPOs are gradually losing their voluntariness.

### **2.2.3 Deficiencies in Self-Governing Capability and External Supervision of NPO**

Self-governing capability of NPO means an organization has the ability to control its activities and an internal management procedure free from external control. The self-governing nature of NPO is of fundamental effect to its existence and development; without self-governing, an organization with independent decisions would fail in becoming a genuine NPO due to affiliation to the government or market, let alone play the functions of making up national and market shadow. Lacking in self-governing will usually lead to deviation in goal-

orientation, because excessive dependence on the government and operative activities will naturally diverge the original value and goals. Chinese NPOs have been relying heavily on the government since the very day they were born, and can seldom independently provide services of public interest. Deficiency in self-governing and immaturity in the development of market economy exist side by side, and such phenomenon leaves room for NPOs to obtain operational capital in profitable activities and gradually lose the non-profit nature.

As some of our NPOs have a strong governmental character, ordinary citizens have difficulties in understanding the utilization situation of public fund, even if through voluntary donation. Such information asymmetry results in the fact that the society cannot effectively supervise on NPOs.

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## **3. SUGGESTIONS ON PROPELLING THE DEVELOPMENT OF NPO**

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### **3.1 Rebuild Relationship Between NPO and the Government and Set Up a Cooperation Alliance**

So far, the government keeps the main subject of implementation in public service. But with the development of social diversification, the government alone cannot make efficient response to the various requirements of the public: as a third sector that makes up for government and social failure, NPO is not only helpful in sharing social responsibility, but also takes part in policy-making and building a brand-new cooperative partnership in social public service along with the government. The government should continue changing ideas and further clarify the boundary between the government and NPO on the basis of streamline administration and institute decentralization, return micro-management right back to social organizations, stimulate their enthusiasm and offer a sound system, environment and spatial resource for the healthy development of NPO. NPO should truly start from the essence of non-profit, voluntariness and public welfare, relentlessly improve abilities of participation and self-governing, and coordinate for the government and market, government and society, government and enterprises, as well as macro and micro views, in order to cooperate and boost the transformation of government functions and establish a cooperative alliance with the government, which, should also be independent and cooperative to each other, and the government should regard NPOs with a more equal position in the course of social affairs.

What role should be the government play in the cooperation course with NPOs is determined by the overall social environment at the time, but the essence lies in assuring NPO independence, as NPO cannot be trained as a “subsidiary” for the government. Based on foreign practical experiences, the government should provide

the necessary support for NPOs in many regards, but not intervene in their internal affairs and mechanisms. At present, foreign governments still mostly play as “captain” in the cooperative partnership with NPOs, and mainly take charge of legislation and policy-making, as well as provide capital assistance when necessary.

### 3.2 Promote Self-Governing Capability of NPO

On one hand, influenced by the dominant government, a large sum of Chinese NPOs depend on it to vary degrees and lack self-governing consciousness. Establishing a good self-governing ability serves as a significant guarantee for NPOs to obtain credibility and maintain vitality. NPOs need to perfect self-discipline mechanism, financial management mechanism, performance evaluation mechanism, HR management mechanism and incentive supervision mechanism and set up a series of internal controlling systems. They ought to know definitely where self-value lies, clarify their position and responsibility and prevent being subsidiaries of the government simply by being benefited. An organization should respect its own HR development and has an independent HR system and avoid being an asylum for the transformation of government function and staff downsizing. Positively recruit professional talents from the society, improve staff ability and business levels, create talent use system and realize a rational talent flow.

On the other hand, the government should completely change its traditional “dominant governing” to the idea of “cooperative governing”, alter the original negative administrative control concept, admit and affirm the indispensable role of NPOs in social and economic activities. The government should enhance the understanding and confidence in NPOs, and entrust them with a legal and reasonable position as a market entity. Treat them as one of the important subjects in public governing instead of a simple tool for policy execution.

### 3.3 Encourage the Alliance of NPO and Profit Organizations

No competition exists in the products and services provided by traditional NPOs, but as social diversification is developing rapidly, the operation cost of NPO becomes an obstacle for development, and traditional voluntary donation can no longer meet the demands of the diversified society, so market-oriented resource acquisition grows into a development trend for NPOs. Thus, competition gradually emerges among NPOs, such competition mechanism not only can increase organizational efficiency to offer social products and services by new methods, but also enhance service level and quality. Once, a lot of profit organizations used to improve self-image and strengthen enterprise core competitiveness by donating to NPOs and attending all kinds of charity activities, it was the primitive PO-NPO alliance. Later, a growing number of profit organizations began to turn to the social activity

field of NPO and posed a great threat to NPOs in terms of operational method and organization efficiency. Such competition forced NPOs to resort to commercial field for new capital sources. At the same time, NPOs with visions started to pay attention to other NPOs and sought strategic alliance to accomplish a win-win situation.

### 3.4 Establish a Scientific and Reasonable NPO Management System

A mature and formal management system setting and operation are of assistance to both the survival and development of NPOs and the transformation of government functions. To begin with, government regulations not only restrict and limit NPOs, but also encourage and drive them. Because of the non-profitability, voluntariness and public welfare of NPOs, the government needs to encourage them to provide better public products and services by tax deduction and exemption. Second, legislative construction of NPOs should be accelerated to ensure their legal status, rights and obligations. Last but not least, by information disclosure and establishing an effective evaluation mechanism, reinforce supervision on NPOs, clarify contents and ranges of the disclosed information and people’s controlling power on supervision, encourage professional assessment institutions and scholars for NPO evaluation and play the effect of public opinion, for the sake of promoting NPOs to develop healthily.

China’s NPOs begin to take shape, but as for quality and efficiency, they still stay at the initial phase and have many troubles left unsettled, including external environmental impact and internal incapability. China is currently experiencing the transitional period from planned economy to market economy, and lacks conditions such as limited government, civil society and national quality for the integration of a modern country and market system. All these deficiencies will hold back the generation and development of NPOs. As a result, in the new reform environment, both the government and NPOs should seize every opportunity to vigorously develop NPOs and strive for a win-win situation on the basis of further promoting the transformation of government functions.

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