

Chapter 12

Third Sector Governance in China: Structure, Process and Relationships

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Third sector governance is a new term for Chinese people as well as for government officials,² researchers and grass-roots non-governmental organizations' (NGOs) leaders. The term is, however, increasingly becoming popular because 'it is important that NGOs are accountable for their actions'. Given the nature of their organisation and the work, the accountability process and the regulations for its compliance are complex because the NGOs 'need to be accountable to many different parts of society' (Watson, 2002). Dr. Yu Keping (2003), one of the scholars who have used 'governance' in their political writings, see the term as a means of decision-making process in which public participation should play a very important role.³ Dr. Yu also distinguishes 'governance' from 'government' on two aspects—from public participation and control perspective (i.e. governance means public participation and government means a small group that controls public), and the location of decision-making (governance is a bottom-up process, i.e. decision-making on the basis of public meetings) (Keping, 2000).

The exponential growth of the non-state organisations in the past couple of decades has also enhanced the significance of dealing with third sector governance in China. The increase in the number, size, capacity and influence of the third sector organizations (TSOs)⁴ has been the result of economic transition of China and the

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²This is not only because of increased advocacy from international community but also because of speedy government reform in China.

³He used the term even in the mid-1990s, when 'governance' was very sensitive, because it had something to do with democracy. So far the political issue is concerned, around that time various social organisations begin to emerge and the villagers' 'self-governing system' based on civil organisations was gradually implemented. The dissemination of Dr.Yu's ideas was limited to a small academia—but small pioneering scholars most of whom were Western educated.

⁴The Department of NGOs Administration of the Ministry of Civil Affairs, on Mass Organisations, September 2003.

expansion of governance, telecommunications, globalisation and economic integration. The United Nations, other international agencies like the World Bank and the Asian Development Bank and international NGOs like the Ford Foundation and the Asia Foundation also have been playing a very important role in promoting the third sector and the improvement of its legal environment by providing funds, ideas and knowledge.

This chapter discusses the political system and regulatory regime in China; the legal system highlighting registration and administration process and requirements, and its influence on TSO governance; the key informants' perception about TSO governance including TSO governance responsibility; and the results of the organisational survey focusing on the profile, staffing and funding of the TSOs, decision-making structure and process, and planning and financial management processes. Finally, the chapter looks at the performance evaluation and external relations mechanism of the TSOs in China and draws some conclusions.

The Political System and the Regulatory Regime

Before the reform programmes initiated in the 1980s, the Chinese State had a highly centralised power and regulated all aspects of citizens' life. Except for a few mass organisations set up by the Party and the government (e.g. China National Youth Federation, All China Women's Federation, some non-profit institutions), there was no room for private, social, or non-governmental organisations. At the advent of the Great Culture Revolution (1966), there were fewer than 100 national social organisations in China. According to statistical data from the Ministry of Civil Affairs, the total number of TSOs rose to 230,000 in 2001 (with 134,000 social organisations and 100,000 private non-enterprise or non-commercial institutions or *minban feiqiye danwei*).⁵ In addition, many of the TSOs are not registered with the government (informal organisations) or are registered with the industrial and commercial administrations (as profit-making entities).⁶

This growth in the third sector has been the result of supportive activities at different levels of government. The top level, constitutional laws, formulated by the National People's Congress, includes three sections: laws, decisions and constitutional documents. The *Constitution of China* (1982) grants freedom of association to its citizens. The Communist Party of China (CPC) takes a crucial role in regulating the development of social organisations. For example, the CPC decisions in 1994 created a favourable political environment for the formation of professional organi-

⁵ Jiang Li, deputy minister of Ministry of Civil Affairs, Speech at Shanghai International Seminar on the Development and Administration of NPOs, November 2002.

⁶ Seminar on the TSOs in China, RCVW, October 2002.

sations.⁷ In addition, the growth, functioning and governance of the TSOs are influenced by the Penal Code, the Tax Code, the Donation Law, etc.

The second level includes State Council regulations (including rules and other decisions) formulated by the State Council. For example, the *Rules for Social Organisation Management and Registration* and the *Provisional Regulations for the Management and Registration of Civilian Non-Enterprise Institutions* were issued by State Council in 1998. There are also four specialised regulations for the third sector.⁸ These four regulations construct the primary framework for third sector administration and registration in China today (Yong, 2003). Apart from the TSOs formed under the above regulations, some of the TSOs are established on the basis of Civil Law or other sectoral regulatory laws.⁹

The third level includes regulations and policies issued by different departments under the State Council, including the Ministry of Civil Affairs' regulations.¹⁰ Sometimes, two or more departments jointly issue the regulations.¹¹ The Ministry of Civil Affairs has more than 50 rules or regulations for the TSO administration. In addition, the Ministry of Civil Affairs, Ministry of Finance, State Economic and Trade Commission, State Taxation Administration, State Industrial and Commercial Administration also formulated rules and regulations related to tax, finances, etc. of the TSOs. The fourth category of laws regulating the TSOs and its governance includes the laws, regulations, policies, rules and other guidelines by the Provincial People's Congress, Provincial Government and departments under provincial government.

These regulations and rules in general permit citizens to form associations—social organisations or civilian non-enterprise institutions, but the government still places restrictions on social organisations with political or religious purposes.

⁷Chen Tingzhong, Interview report, 2002. In 1994, the Fourth Session of the 14th National Congress of Communist Party approved the Several Decisions on Establishing Socialist Market System, in which the Party recommended the creation of more room for developing professional associations. The Political Report of the 15th National Congress of Communist Party reaffirmed the role of professional associations in establishing socialist market.

⁸Such as Rules for Social Organisation Administration and Registration (1998), the Provisional Regulations for the Administration and Registration of Civilian Non-Enterprise Institutions (1998), the Provisional Regulations for Foreign Chamber of Commerce in China (1989) and Rules for Foundation Administration (1988).

⁹These laws include the Law on Corporation, the Rules on Private Firm Registrations, Law on Individuals to Run Business in Partnership, Rules for Health Care Management, the Rules on Social Forces to Create Educational Organisations, the Law on Promoting Civilian involvement in Education Development, the Law of the People's Republic of China on the Protection of Disabled Persons, Law of Lawyers, Law of Relic Protection, Solution on China Association of Returned Oversea Chinese, etc.

¹⁰For example, Rules for Managing Official Seal of Social Organisations, the Ministry of Civil Affairs Circular for Re-checking Social Organisations.

¹¹Such as the Circular of the Ministry of Civil Affairs and State Industrial and Commercial Administration: Rules on Social Organisations to do for Profit Business (1991).

Social organisations' registration can be cancelled if the leaders/the organisation move to these restricted territories. In 1998, the Organisational Department of CPC Central Committee and the Ministry of Civil Affairs jointly issued the Circular for Establishing Party Branches in Social Organisations. The registered social organisations with three or more party members should establish CPC branch under the leadership of the party organisation in the respective government-supervising agencies. This is to ensure the realisation of the Party's line, principles and policies through the functioning of the TSOs, as well as monitoring of the TSO activities.

In recent years, for promoting economic development, the government has created more room for the development of professional associations. In addition, in order to meet grim challenges of human development, such as aged, unemployed, poverty, etc., the government encourages the TSOs to deliver social service (Yunsong, 2003).¹² It is noteworthy, however, that the Chinese government has not specially formulated regulations to address the fiduciary responsibility, transparency and accountability of the TSOs. The existing legal and administrative system for the TSOs may spur the fiduciary responsibility, transparency and accountability more or less, in either direction.

Third Sector Legal Environment: Registration and Administration

There is no department of the State Council in charge of social administrative affairs, but one department under the Ministry of Civil Affairs is in charge of the TSOs. The TSOs should register in the Ministry of Civil Affairs or local civil affairs departments, and are issued a certificate of body corporate if the application is approved. Three types of social organisations are exempted from registration:

1. The eight organisations in the China People's Political Consultative Conference¹³ or their local branches.
2. The organisations approved by the State Council.¹⁴

¹²For example, Shanghai Municipal Government is creating a friendly environment for community organisations as well as aged home care organisations to deliver social service.

¹³Including All China Worker Union, Chinese Communist Youth League, All China Women Federation, China Association for Science and Technology, All China Association for Returning Overseas Chinese, All China Association for Taiwan Compatriots, All China Association for Youth and China Association for Industry and Commerce.

¹⁴For example, China Association for Literatures and Arts, China Association for Writers, All China Association for Journalists, China Association for International Communication and Friendship, Chinese People's Association of Diplomacy, China Association for International Trade, China Association for Disabled, Song Qingling Foundation, China Society for Laws and Regulations, etc.

3. The organisations approved by the government agencies, which run their business within their own agency system.¹⁵

A social organisation must first be affiliated with a government line agency which is to make sure that the proposed organisation targets to fulfil an actual social need, does not overlap with any other organisations, is not formed in any area where there already exists a similar organisation, and have members with educational qualification and skills required to offer the proposed service(s) and effectively run the organisation. When all these requirements are fulfilled, the proposed social organisation becomes eligible to register with the Department of Civil Affairs. In this twofold administrative system, both registration and administration authority, and the government-supervising agency are responsible for managing the TSOs. Based on the *Rules for Social Organisation Administration and Registration*, the responsibilities of registration and administration authority include registration, annual check and taking administrative disciplinary measures to the TSOs that violate regulations or rules.¹⁶

Mass organisations are an important component of the political life in China. The mass organisations listed in this section mostly are quasi-official in nature. The 'Procedures on the Registration of Social Organisations' stipulate that to set up a social organisation, the organiser must produce a document of approval from the department overseeing its operation. Such a department may be an organ or agency of the people's governments at and above the county level or those that have been delegated with the right of giving approval. In reality, the social organisations are placed under the administration of such departments.

A lot of grass-roots TSOs in the past failed to register as formal TSOs, because the government-supervising agency declined to take any responsibility for the TSOs' political views. Thus some famous grass-roots NGOs, like the Green Earth Volunteers, the Global Village of Beijing and the Friends of Nature had to register in the departments of Industry and Commerce, as for-profit organisations.

From the perspective of modern Chinese history, the development of China's TSOs has progressed through three stages. The first stage is from 1911 to 1949. Various NGOs emerged in this period because of the social factions and civil strife (Ming, 2001a). From the 1950s to the 1970s, there were only a few mass organisations in China. In the early 1950s, there were '44 national mass organisations and fewer than 100 in 1965, and there were 6,000 local mass organisations during this period' (Zhongze, 1996). In the third stage, since 1978, the number, size and capacity of the TSOs in China have increased exponentially reaching a total of about 230,000 registered and thousands of unregistered TSOs in 2001.¹⁷

¹⁵Like China Association for Lawyers, China Society of Red Cross, etc.

¹⁶State Council and Ministry of Civil Affairs, the Administration of Social Organisations, China Societal Publishing House, 1999.

¹⁷See note 5.

The Legal Environment's Influence on TSO Governance

The *Rules for Social Organisation Administration and Registration and the Model for NPO Constitutions*, issued by the Ministry of Civil Affairs in 1998, require the TSOs to have a board, public meeting of members, legal person and a general secretary. According to the Rules, the public meeting is the top organ of the nonprofit organisations (NPOs), in charge of approving and amending the chapters of the TSO, selecting or recalling board members, considering the annual and financial reports of board committee, etc. Secondly, the board of directors is the executive body of the public meeting and in charge of routine work. Thirdly, a standing board of directors is available for the larger TSOs with many board directors, and plays a crucial role during adjournment of board of directors.¹⁸

Under the above-mentioned twofold administrative system, it is very difficult for the TSOs to have a genuine independent board or independent decision-making mechanism. The survey conducted by Tsinghua University found: less than 30% of the TSOs selected their leaders on the basis of regulations (more than 60% of the TSO leaders were appointed by the government-supervising agencies or nominated by the government supervising agencies). Secondly, almost half of the TSOs did not have a formal decision-making system, only 11% could make decisions on the basis of the formal procedure (Ming, 2001b).

At present, the government is more careful to deal with the TSOs, because China is entering a difficult time of transition with more and more unemployed (Ding, 2004). In order to punish the TSOs that violate regulations, new measures to supervise the TSOs have been introduced recently.¹⁹ For example, before running important events such as training programmes, workshops, conferences and international trips, the TSOs are now required to submit proposals and work plans to the government-supervising agency. The TSOs also should submit an annual report to the government-supervising agency for approval (before March 31 every year).

Third Sector Governance: The Key Informants' Perception

In China, especially in academia, different terms like the TSOs, NGOs, voluntary organisations, social organisations, religious organisations, unions, cooperatives, etc. are used at different times by different people. The government, however, has

¹⁸The Ministry of Civil Affairs, the *Rules for Social Organisation Administration and Registration and the Model for NPO Constitutions*, 1998 (in Chinese). Chairman of the board of directors is the legal person of organisation who signs important documents on behalf of the TSO and organizes and chairs the meeting of the board directors. The secretary general is responsible for daily work, nominating deputy secretary general and the heads of different departments and recruiting staff.

¹⁹The Ministry of Civil Affairs, *The Rules for Social Organisation Administration and Registration, the Provisional Regulations for the Administration and Registration of Civilian Non-Enterprise Institutions*, Beijing (in Chinese).

no interest in using the term ‘NGO’,²⁰ and promotes ‘social organisation’ as the official term. Some international organisations, such as the United Nations, like to use ‘civil society organisation’, for example in promoting these organisations’ role in the achievement of the Millennium Development Goals in China.

The top six terms used in China are (in proper order) social organisation, civilian-enterprise institutions, NGOs, associations, voluntary organisations and religious organisations. In the past few years, the term ‘NGO’ ‘is being disseminated by media, academia as well as the government sectors’ (Tuan, 2003). Interestingly, however, the key informant survey found that people from different regions have different preferences. In North (Beijing) and West (Xian) China, social organisations are more popular than the other terms. It may be, because, as we mentioned earlier, ‘social organisation’ is the official term, defined as ‘nonprofit organisations (NPOs), organised voluntarily by citizens, which conduct activities according to their charters in order to realise the common desires of their members’.²¹ In the recent past, the government also has been using terms like ‘civilian non-enterprise institutions’. In reality, ‘social organisation’ or ‘civilian non-enterprise institutions’ in China are not equal to the NPOs in the West or even in any other Asian countries.

People in the South (e.g. Guangzhou), however, are very familiar with other terms like ‘voluntary organisations’. Guangzhou, in the Pearl River Delta area, has well-developed export-oriented economies, attracts much foreign investment and has access to outside information. The Beijing and Xian areas lag far behind Guangdong in foreign funds or export-oriented industries. The Pearl River Delta Area has a well-developed civil society, including business associations (to protect the members’ interests through dialogue with the government), Hong Kong-based volunteer programmes and voluntary organisations working in Guangdong, or the volunteer programme organised by the Oxfam Partnership of Community Development. A very interesting thing in Guangdong is that a ‘volunteer’ there is called ‘*yigong*’ (be willing to contribute their time and energy to the people who need), which is different from North China (e.g. Beijing) where volunteer is called ‘*zhiyuanzhe*’ (be willing to contribute or are forced to contribute time and energy to the people who need).²² So the TSOs in the South are different from the North.

Governance is a public decision-making mechanism, in the sense that all directors take part in the decision-making for organisational development. The objective of governance is to make use of power to guide, control and institutionalise the various activities of citizens and maximise public benefit in the various institutional

²⁰ Because the government considers that ‘NGOs’ have some political meanings and assumes that the NGOs are antagonistic to the government organisations.

²¹ Comments made by Mr. Chen Guangyao, a former director of Department of NGOs Administration under the Ministry of Civil Affairs, see Zhao Liqing and Carolyn Lyoya Irving, eds., *The Non-Profit Sector and Development*, Hong Kong Press for Social Science Ltd., 2001.

²² The Central Committee of the Chinese Communist Youth League had requested Guangdong to use *zhiyuanzhe* instead of *yigong*, but was refused. Guangdong would like to have their independent options on understanding volunteerism.

relationships. From the perspective of political science, 'governance refers to the process of public administration' (Keping, 2002).

The Research Centre for Volunteering and Welfare, Peking University, organised three workshops in the summer of 2002 in three different places (Beijing, Guangdong and Shanghai) to discuss TSO governance. Most participants in these workshops were not familiar with governance issue, but they knew that grass-roots NGOs should well manage their funds and should keep a good organisational efficiency. But for many key informants for the study, governance is 'transparency', 'public participation and public supervision', 'high quality of leaders', 'rational power structure', etc.

Many respondents believe that accountability/answerability, as aspects of 'governance', require the use of funds for earmarked purposes only, in a transparent way seriously implementing the annual work plan and decisions made by the board. Thus the whole concept of governance refers to two main things: financial transparency and key roles of 'board' in decision-making. Many key informants thought that the integrity of and commitment to the missions are key indicators of third sector governance. They also identified good relationship between the chair of the board and the chief executive officer (CEO), holding of regular meetings of general body, board, and standing committees as well as high efficiency and good performance of the TSO as indicators of good TSO governance. In China, political background and political change are very sensitive not only for the TSOs but also for all people, that is why many people opined that political change will have significant impact on the TSO's development in China. The key informants also suggested that public recognition and support, good relations with the government, public supervision including media and the government significantly influence TSO governance.

TSO Governance: The Government's Responsibility and Relationships

The key informants were also asked about who should have the responsibility of the TSO governance, the extent of and reasons for government supervision of the TSOs. It seems, most people (43% of the respondents) in China think that board committee or management committee should have the main responsibility to ensure that the TSOs are well governed. Another 31% of the respondents think that the responsibility should be with the leader/CEO. It is interesting to note that 52% of the informants believe that, in practice, however, the leaders or the CEOs have the responsibility for ensuring that the TSOs are well governed because sometimes, in some organisations, board committee and management committee exist in name only without much responsibility. A handful of the respondents, however, think that the responsibility of ensuring that the TSOs are well governed should rest on the government (17%). In reality, however, at least 19% of them believe that the responsibility is with the government any way because some social organisations (with strong government supports) are required to have major decisions approved by their line administrative body.

Most key informants in China (41%) think that the government moderately supervises the activities of the TSOs, while only 21% think that the government has a great deal of supervisory system over the TSOs. It is worth noting in this regard that there is not much difference between the responses of the government officials and that of the TSO officials in their understanding of the extent of government supervision on the TSOs. Twenty-one per cent of the government officials and 26% of the TSO respondents thought that the government supervises the TSOs a great deal, while 36 and 37% of them, respectively, thought that the government moderately supervises the TSO activities. Most of the informants point out that the role of the government in monitoring and supervising could not be ignored, but then the extent of monitoring and supervision varies on the basis of the TSO's types and activities. Interestingly enough, however, 29% of the respondents (including 42% of the TSO respondents and 33% of the government respondents) did not respond to this question.

Only a tiny percentage of key respondents in China believe that the government supervision of the TSOs is to ensure the integrity of the TSOs (14%) and to make sure that the money is not diverted to undisclosed activities (12%). A very high percentage (60%) of respondents in China (including 57% of the government respondents and 68% of the TSO respondents) thought that the main reason for government supervision of the TSOs is to make sure that they are not involved in any politically subversive activities. Actually, the Chinese Communist Party, and the Chinese government's attitude towards the TSOs is self-contradictory. On the one hand, with increasing social problems, such as unemployment, aging population, disability service and rural migration, the government hopes that the TSOs can play an active role in delivering social service and other public welfare. On the other hand, the government worries that the TSOs may get involved in political activities, especially, anti-government activities like the Falungong movement. In their general strategy, the Party and the government give priority to social stability and economic growth. Before the reform and open-up policy, the Chinese government had borne responsibility for all the public affairs including aged insurance, health insurance, unemployment insurance, social welfare, relief, and special care for disabled and family members of the revolutionary martyrs, etc. However, with the reform of state-owned enterprises and the economic system, and the transition from the planned economy to market economy, the government is not able to bear these burdens any more. At the same time, more problems like environmental pollution and expansion of vulnerable groups are challenging the government. Therefore, the government is shifting its responsibilities to society, including the community organisations and social organisations. In 2000, the CCP (Chinese Communist Party) and State Council promulgated the *Decisions on Promoting Community Development*, in which, the Party and the government deemed the community as a crucial force for delivering social service in helping the unemployed, aged and disabled (Hao and Ding, 2002). Community organisations in China have received more action space than the other social organisations.²³ Thus as revealed by the key respondents the TSOs without any political motive are likely to grow further receiving the government's support.

²³ On May of 2001, the State Council launched the Project Star with US\$600 million to promote aged service in urban community.

In China, most of the TSOs have a management/board committee—usually called a board committee; the fact is corroborated by 86% of the respondents. In particular, the larger TSOs, like the China Youth Development Foundation, China Charity Federation, China Poverty Eradication Foundation, have their board committees. The committees consist of retired officials, famous scholars and famous entrepreneurs, etc. The Chairmen of most organisations with strong government background are retired officials. Usually, those organisations also have their administrative rank. The retired officials thus can still enjoy their administrative perks, including official transport, housing, secretary, etc. Generally, the CEO or the secretary-general plays an acting role in these organisations.

The respondents, however, were not sure about the laws governing the ‘board’. Only 52% thought that having a board in the TSOs is a legal requirement. In fact, *The Rules for Social Organisation Administration and Registration and the Model for NPO Constitutions*, issued by the Ministry of Civil Affairs in 1998, require the TSOs to have a ‘board’.

According to the key respondents, the major advantages of having a managing committee/board committee in the TSOs are that it brings tangible resources (power, prestige, connections) for the TSO (38%), it sets the overall direction and goals of the organisation and helps achieve those (36%), monitors efficiency and effectiveness of the organisation (7%). ‘Traditionally in Chinese society, decisions were taken by influential or respected individuals, rather than through laws or regulations. The Chinese term *guanxi* signifies the power of individual influence’.²⁴ In China, high-ranking retired officials, movie stars and famous entrepreneurs, among others, give the TSOs a high reputation and recognition; these are the greatest invisible resources for the TSOs. It is thus not surprising that the largest percentage of respondents thought that a managing committee/board committee brings tangible resources for the TSO, what is surprising though is that only 2% of the respondents thought that the managing committee/board committee can raise funds for the TSO.²⁵

Most informants think that the relationship between the managing committee/board/trustees and the chief executive of the TSOs is sometimes harmonious, the next is always harmonious, only a few people thought it is rarely or never harmonious. Usually, the relationship between the managing committee/board/trustees and their chief executive in the TSO relies on the relationship between the head of the managing committee/board with the CEO. This is the Chinese tradition, as we mentioned above, of *guanxi* that denotes a network of informal personal relationship that forms an invisible bond between the board committee and the CEO.

So far in this chapter we have discussed the legal environment of third sector governance and the perceptions of key informants about third sector governance

²⁴ UNDP, *China Human Development Report 2002*, p. 67.

²⁵ Whereas, it is revealed from our organisational survey (please see later) that 54% of the TSOs’ committee/board members seek donations from friends and acquaintances for the organisation.

in China. In the next part, we would like to analyse how these two relate to the actual situation in the field—based on the organisational data we collected for this research.

Profile, Staffing and Funding of the TSOs Surveyed

In this survey, the largest proportion of the sampled TSOs is in social service (41%); the lowest (04%) in religious activities.²⁶ The other types of organisation in the sample are fairly evenly divided, arts and culture (20%), business and professional (19%), education (27.2%), environment (11%), Law and advocacy (17%), and social and economic development (15%).²⁷ The TSOs we surveyed included a 103 year old and one that is only a few months old, but the largest number was 10 year old (50%) and 3 year old (25%).²⁸

Seventy-two per cent of the surveyed TSOs have legal status and only 26% do not. The survey also found that there is no strong relationship between location and legal status. More social service offering TSOs have legal status than the TSOs in other sectors. As mentioned earlier, due to the government's preference, it is easier to be registered as social service organisations than other types of the TSOs. The largest percentage (74%) of social service delivery organisations are either in civil affairs departments or in industrial and commercial departments. Further, a lot of grass-roots non-profit organisations could not register because any TSO should have a government-supervising agency, and the government agencies, in general, are not willing to take the responsibility of these organisations.

Sixty-one per cent of the surveyed organisations consist of members, and we found that the relationship between location and organisation's membership is very strong. Regional cities have more membership organisations (80%) than metropolis areas (43%). Membership in business and professional organisations are higher than in education organisations. A trend new in developed areas such as Pearl River Delta and Yangtze River Delta is that more and more business people are joining

²⁶ These social service delivery organisations are encouraged by the government and have more activity space than any other type of social organisations. Further, because of the political factors, the number of organisations involved in religious activities is also the lowest.

²⁷ It is worth pointing out in this survey, most of the TSOs only have one field of activity, and only 18 of the TSOs have two or more than two fields of activities. This survey is not based on a strict random survey, either.

²⁸ We failed to find or reach over the phone many identified organisations based on the sampling framework. This is either because they had moved and the address is not updated or they disappeared. The TSOs in China are not stable owing to the legal environment changes in financial support as well as personnel non-availability. Unemployed people form the TSOs only to leave those as soon as they get a better job, so the retention and commitment of the human resources are other challenges that the TSOs in China are facing.

self-regulating organisations as members to influence the market, protect their rights and to negotiate with the government on policy issues. In order to expand their organisations, business and professional organisations make great efforts in recruiting members in various ways. The survey found that most of the organisations with membership have between 100 and 499 members. While Friends of Nature has around 1,000 members, there is no correlation between field of activity and organisation.

Seventy per cent of the surveyed TSOs rely on paid staff and 28% on volunteers for achieving their mission. Paid staffs run proportionately higher number of business and professional organisations than organisations in other fields of activity, and play a key role in complementing the organisational mission. Fifty-four per cent of the organisations surveyed for the research do not receive overseas funds, while 44% do. In those organisations that receive foreign funds, in 56% cases overseas funds accounts for more than one third of their total revenue. Then again organisations located in the capital or large cities are more likely to have access to overseas funds than those in regional areas. Almost none of the regional cities have any access to foreign funding, and almost none of the business and professional organisations receive any foreign funding. Whereas, almost all surveyed organisations involved in the field of education and environmental protection have some access to foreign funds. But, interestingly enough, among all fields of activity, organisations in law and advocacy have the highest proportion of their funds sourced overseas.

The government provision of funds for the TSOs in China is worth noting. Fifty-six per cent of the organisations in this survey receive funds from the government, while 43% do not. The government support for these organisations is reasonably significant because funds from the government amount to at least one third of their total revenue. There is obvious regional variation in this regard. Seventy per cent of the organisations in this survey receive domestic donations. Almost all the TSOs in Beijing and all over the country in the business and professional category receive domestic donations. Apart from the three above mentioned funding sources (overseas, government and domestic donations), 68% of the surveyed TSOs have other funding resources, with at least in 62% cases amounting to one third of respective total revenue. This is more evident in regional locations and business and professional organisations where the funding source is primarily membership fees or service delivery fees. The data show that at least 50% of the law and advocacy organisations in this survey have no other funding resources, nor do the religious organisations and social service organisations. In the first two cases, they cannot have membership or service delivery fees; in the last cases, money was in such abundant supply from the first three sources that they do not need to mobilise other funds.

The activities and funds of the surveyed organisations have increased in the three years prior to this survey for most surveyed organisations. The survey found that 88% of the activities of organisations over the past three years have grown, whereas 12% of them maintained the same. The increase has been consistent across the board with no significant variation among regions or among fields of activity.

The above facts only corroborate the claim that interests of the government, funding agencies (local and overseas) and the people all are in the rise in China. The cooperation among the three sectors, for example state, market and the TSOs, could remove the negative impacts from marketisation. Practices have shown that each of them could not fully promote economic growth and social development, and could not solve all social problems alone. In order to promote economic growth and social development, the three sectors should work together and to formulate suitable policies and concrete measures. In the next sections of this chapter, we try to look at governance processes and external relationships of the TSOs to suggest measures for improvement for the above.

TSO Governance: Decision-Making Structure and Process

The survey found that, usually, board or trustees play the key role in decision-making, and 52% of the organisations surveyed have this power structure. The CEO or founder of the organisation also has the final say in 17 and 14% cases, respectively. In this regard, we have not found any difference in the location of the organisation or the field of activity of the organisation. But, in some TSOs in Beijing, the founders do have the final say. But, with organisational development or where the founders are not in the prime of life and with no vigour of youth, the organisations lack motivation or lose members and become weak.

Seventy-nine per cent of the TSOs surveyed have a driving force. We found 49% of the driving force is the founder, and in 26% of the surveyed TSOs it is the CEO. Generally, the proportion of driving force being the chairperson of the organisation is much higher in social service organisations than in organisations involved in other fields of activity, e.g. arts and culture.

In the open-ended questions, our interviewees listed the driving force as (in accordance of occurrences): president, secretary-general, legal person, chairman, dean, director, chairman of board committee, CEO, executive president, vice-president, board director, coordinator, founder, etc. Expertise and competence (41%) are the crucial reasons for these people to become the driving force, while political connection (17%), charisma/personality (14%), integrity/moral uprightness (9%), performance/track record (4%), position (7%) and fund-raising (4%) also have been the reasons for their becoming the driving force. In the regional cities, comparatively more TSOs recognise political connection, charisma/personality, performance/track, position and fund-raiser as reasons for being the driving force. In the capital city, according to the interviewees, expertise and competence make the 'driving force'. Social service organisations give importance to political connection, charisma/personality, integrity/moral uprightness, position and fund-raiser. Business and professional organisations prefer political connection, performance/track record and position. Organisations in other fields of activity recognise expertise and competence as the main features of the driving force.²⁹

²⁹ We also have confirmed these relationships through statistical tests.

Almost all of the organisations in the survey (except 15%) have committee or board. The proportion of the organisation that has committee or board in the capital city or large regional cities is higher than in small cities. The size of the board differs from up to 9 members (27%) to 10 to 49 (36%). But we also found the TSOs with 100+ members in the board. There is no obvious difference in location and sector in this regard. Paid staff seem not to have much say in these organisations—only about 50% of the organisations have paid staff in the board but accounting for not more than 10% of the board members (in 14% of the surveyed TSOs paid staff occupy about 50% of the board positions).³⁰ Although almost 90% of the surveyed TSOs have women in the boards, they usually account for 10–50% of the total board positions. The members come from disadvantaged groups within the wider society, and ex officio officers of the organisation are no more than 10% in most of the organisation in the survey (around 69% missing). Most board or committee members are elected by members/constituents; the proportion of elected members is higher in regional cities than in the capital or large cities. The proportion of the other members like government officials, appointed by the committee/board, appointed by the CEO/founder/chair and appointed by the stakeholders (e.g. another TSO) is no more than 50% of the board or committee members, in which the member appointed by the CEO/founder/chair is the least—less than 10%.

The survey also found that in 37% of organisations, the CEO is also the chairperson of the board committee (about 43% missing) with a lower percentage in social service organisation. But a higher proportion exists in social service, in which the chairperson of the board comes from the stakeholders (about 46% missing). The respective board selects its chair, and almost all the TSOs have a board committee. We found only about 6% of members regularly donate funds to their organisations, but 77% provide suggestions to their respective TSO, and there is no obvious difference among regions and sectors. Thus apparently board members bring their expertise to the board, not the cheque book.

Around 65% of the TSOs meet on a regular basis (25% missing responses) with up to five meetings a year (one organisation holds weekly board meetings), 17% do not. Those that are located in large or the capital city hold more meetings than those in other locations—presumably board members in large cities are more conscious, interested, and eager to contribute than their regional counterparts and make it happen. The TSOs in education, social and economic development, and social services hold more regular board meetings than organisations in other fields of activity with business or professional organisations organizing the least numbers of regular meetings.

Irrespective of the numbers of meetings held, decisions at these meetings are generally made by consensus (61%) (with voting in 22% cases). Seventy-five per cent of the respondents said that minutes or a written record of the meetings are kept (only a few do not: 7%). More TSOs in metropolis or large regional centres keep minutes or a written record than organisations in other areas. Only 58% of the

³⁰There was the highest 54% missing responses for this question.

TSOs, however, hold annual general meetings—22% do not. Again more public meetings are organised by the TSOs in metropolis and larger regional centres than those in local areas. In short, general meetings are common in most TSOs, and in most cases prohibit public participation, and make major decisions and keep minutes or a written record.

Many of the TSOs in our sample did not have boards. In those organisations, the head of the organisation drafts project plan and sends it to the higher rank leader for approval. For example, in Guangzhou, there is an informal organisation with a neighborhood committee as the ‘mother-in-law’ (approval and supervisory body), responsible for the organisation’s work plan and decision-making. In some other TSOs, the major decision-making is undertaken by the staff with universal participation. For example, in the Labor Right Protection Center (East China Law and Political University), the head of the TSO outlines proposed activities and the secretary-general along with the staff draft detailed proposals for the Head’s approval. In some other cases, the decision process is more democratic. For example, the Head puts forward a proposal and the participants approve it (e.g. Youth Studies Society of Xuanwu District) or smaller groups propose resolutions, while the final decision is made by all members (e.g. Organisation of Social Gender and Development). There are also instances of democratic centralism where the decision-making is vested at the top (e.g. Beijing Yuanmingyuan School) or the organisers put forward proposals to the purpose-built committee for approval (e.g. China Foundation of Literature). Except for one or two cases, the TSOs without any board do not hold annual general meetings.

TSO Governance: Planning and Financial Management

The Survey found that 95% of the TSOs undertake formal planning activities, to achieve the missions enshrined in the Statement (93%), and 90% prepare plans before initiating major projects. In 70% of surveyed organisations, the board regularly checks the implementation of the plan and strategy. Eighty-five per cent of the TSOs have their business strategy plan, without any significant differences across fields of activity or location. In about 50% of the TSOs, the board/committee gets involved in succession plan for the CEO or member of the board (36% do not get involved in the planning). More board committees in the capital and larger cities get involved in the succession planning for the CEO and for the board members than the TSO board committees in other regions.

Committee/board in 61% of the TSOs take part in strategy/business plan formulation, only 19% do not. Business and professional organisations’ committee or board gets less involved in strategy/business plan formulation than the TSOs in the field of law and advocacy, economic and social development. The data also reveal that the strategic plans in most of the TSOs (72%) are approved by committee or board (not in 10%), without any significant differences along sectors. Again in 54%, the TSOs’ committee or board participates in regular examination of the strategic

plans (while 26% do not). The committee or board of the TSOs in the metropolis has more involvement in these activities than the TSOs in other locations. In business and professional organisations, the board is involved less in the regular examination of the strategic plans than in the TSOs offering educational services. One obvious reason for this is while overseas or government funding for the business and professional organisations is the lowest, most of the TSOs in the field of education receive largest proportion of their funds from these two sources.

The TSOs that do not undertake any formal planning activities informed that decisions are made in different ways. For example, in some cases the higher-level authority makes decision for the TSOs (e.g. Guangzhou Association of Light Industry), the TSO itself arranges activities based on the regular policy instruction from the higher-level authority (Guangzhou Young Volunteers Association), the TSO arranges activities based on the guidelines of the umbrella body (e.g. Youth Studies Society of Xuanwu District) or the TSO decisions are made by the District Government (e.g. Xi'an Disabled Person's Association). In some other cases, members work together to draft (e.g. Organisation of Social Gender and Development), or base their work plans on the national education development outline as well as the concrete conditions of the school (Beijing Haidian Yuanmingyuan School), or plans are approved by the ad hoc board committee (China Association of Literature).

Almost all the surveyed TSOs (90%) follow the required financial procedures. Further, 78% of the TSOs prepare annual budget, while all the TSOs in the education sector prepare it. Forty per cent of the TSOs have monthly cash flow budget. Proportionately, more TSOs in regional centres prepare cash flow budgets than do those in the metropolis. More business and professional organisations are involved in monthly cash flow budget than the TSOs in any other field. Eighty-four per cent of the TSOs, without much difference among regions and field of activity, offer their annual financial reports for public viewing. Seventy-six per cent of the TSOs (including 100% of the TSOs in education) have asset register. The survey found that 65% of the TSOs get their financial statements audited by a qualified auditor, but the TSOs in the metropolis do it more than the TSOs in the regional areas. While business and professional organisations arrange auditing of their accounts by qualified auditors, the TSOs in education, environment protection, art and culture, and social and economic organisations have a higher incidence of involving qualified auditors than the TSOs in other groups.

It is interesting to note that most (67%) of the TSOs do not release their detailed financial reports to the public, only 24% do but then the TSOs in metropolis areas release it more than the TSOs in regional centres. In only a small percentage of the TSOs (42%), the committees/boards get involved in annual budget preparation. The committees/boards in educational organisations have more involvement in budget preparation than the TSOs in other fields of activity. But the committees/boards in more TSOs (59%) get involved in approving annual financial reports, without much difference among regions and fields of activity.

Some committees/boards (40%), more in the TSOs in the metropolis and in the educational organisations, monitor organisational performance regularly. The boards/committees are more involved in approving financial reports (56%),

especially, in educational organisations. Most of the organisations have established a special committee like financial department or auditing committee to deal with the preparation and approval of financial statements, especially, in environmental organisations.

Where the TSOs do not have a formal financial procedure, the higher-level authorities of the TSO arrange funds or resources and also manage these resources and funds (e.g. Guangzhou Young Volunteers Association). In some cases, financial procedure is managed by the mother-in-law (e.g. Youth Studies Society of Xuanwu District), or controlled by the mother-in-law (e.g. Guangzhou Association for Disabled Persons). Some other TSOs establish a special foundation to raise and use funds where the founders play a key role (e.g. Light House in Guangzhou). In some other TSOs, the chief of the TSO makes the decision (e.g. China Study Society of Younger Crime), and in yet others all members collectively prepare, and monitor the budget regularly (e.g. Organisation of Social Gender and Development).

TSO Governance: Performance Evaluation and External Relations

The survey found that 62% of the TSOs have a performance evaluating system; among these more TSOs in education, environmental protection, law and advocacy, and social service have performance evaluating system than the TSOs in business and professional. Around 54% of the TSOs have a procedure manual. The proportion of the TSOs with a procedure manual is higher in law and advocacy than in the other TSOs. Fifty-six per cent of the TSOs have a written job description, with the highest in social service than in the other organisations, such as law and advocacy.

Forty-seven per cent of the TSOs undertake performance appraisal on a regular basis, while 37.0% of the TSOs have key performance indicators. More TSOs in environmental protection have key performance indicators than in other organisations. Thirty-one per cent of the TSOs have quality assurance procedures, such as client interviews. Fifty-nine per cent of the TSOs in all fields of activity carry out evaluations of the efficiency and effectiveness of their activities, but the TSOs rank the lowest in social and economic development—which is an unexplainable surprise. In short, although over half of the TSOs have a performance evaluating system, they look at it from different perspectives and the degree of performance evaluation is much lower than expected because of a controlled system of social activities in China.

In 44% of the TSOs (with 38% missing), the committee/board approves the appointment of the CEO. The proportion of the TSOs approving the appointment of the CEO in regional areas and in arts and culture and social service is higher than those in the large cities and in other fields of activity. Only in 37% (about 38% missing) of the TSOs, the committee/board reviews the performance of the CEOs, in terms of the key performance indicators, at regular intervals—the highest in the social service organisations than in other TSOs. Statistical analysis found there is

not much difference among regions and sectors. In 33% (about 41% missing) of the TSOs, the committee/board gets involved in reviewing the quality assurance procedures, while in 43% (about 40% missing) of the TSOs, it gets involved in evaluating the efficiency and effectiveness of the organisation. In short, a large number of the TSOs opted not to respond to most questions under 'performance and evaluation'. Thus the TSOs require much effort in improving the institutional systems because there is a strong correlation between the institutional building and the committee/board performance evaluation.

The TSOs that do not have a formal performance evaluation system handle the requirement in many different ways. For example, the performance evaluation system in some of the TSOs is controlled by the respective line department of the government (e.g. Health Care Authority for the Guangzhou Society for Red Cross) or by the respective higher-level authority (e.g. Guangzhou Association for Disabled Persons), or is monitored by the mother-in-law (like Guangzhou Light Industry Association). In some other TSOs, the CEO allocates responsibilities (e.g. China Association of Folk Photographs), the responsible project officials take the initiative individually and then report to the organisation, and the secretary-general implements the tasks (e.g. China Cultural and Economic Foundation for Returned Chinese Overseas), the team leader undertakes the task (e.g. Xi'an Shangyiyu Community Dancing), and the committee implements the tasks on the basis of the government's policy (Shanxi Provincial Association of Islam), through professional committees and different departments (e.g. Guangzhou Association for Constructive Materials), under the leadership of the secretariat various professional groups play their role (e.g. Guangdong Auto Industrial Association) or under the leadership of the secretary-general the departments play their roles (e.g. Guangdong Security Association).

Sometimes, the mother-in-law also can guarantee the daily work of the TSOs (e.g. Guangzhou Society of Red Cross). In most cases, however, the TSOs are controlled by higher-level authority (e.g. Guangzhou Light Industry Association), hand in monthly report to the higher-level authority (e.g. Guangzhou Young Volunteers Association), report to the secretary-general (e.g. China Economic and Cultural Foundation of Returned Overseas Chinese), hold regular meetings, prepare regular reports and hold regular discussions (e.g. China Foundation for the Prevention of STDs and AIDS), or manage the organisations on the basis of the government's policy (e.g. Guangzhou Association of Disabled Persons). In some of the TSOs, the experts are responsible for professional work, preparation of the monthly reports, and implementing the project on the basis of the work plan (e.g. Guangdong Provincial Chain Business Association), or regularly contact the beneficiaries who evaluate, provide their comments and suggestions (e.g. Social Work Group at China Women's College).

Ninety-one per cent of the TSOs under this survey report their activities outside the organisation, while 74% have a formal mechanism of reporting activities outside the organisation (17% do not). All of the art and cultural organisations, social and economic development organisations have a formal mechanism of reporting activities outside the organisation. Seventy-seven per cent of the surveyed TSOs produce an annual report, 62% produce a regular newsletter and 61% have a website. The survey found that more educational TSOs have website than the TSOs in other

fields of activity. Sixty-seven per cent of the surveyed TSOs prepare funding submissions to the government and/or other funding bodies. Eighty-one per cent of the surveyed TSOs coordinate with the TSOs providing similar services. The survey found that all of the social service organisations coordinate some of their work with other TSOs providing similar services. Sixty-nine per cent of the TSOs make representations to government on matters other than funding for their organisation. In short, most of the organisations have a formal mechanism of reporting activities outside the organisation, which shows that they pay close attention to external relationship and their own image.

Fifty-nine per cent of the TSOs' committee/board gets involved in the preparation of submissions to funding bodies. The proportion of the committee/board getting involved in the preparation of submissions to funding bodies is higher in law, advocacy, social and economic development TSOs than organisations in other fields of activity. Forty-seven per cent of the TSOs' committee/board members approve submissions to funding bodies; 38% of them get involved in making representations to the funding bodies. Fifty-four per cent of the TSOs' committee/board members seek donations from friends and acquaintances for the organisation. Sixty-nine per cent of the surveyed TSOs' committee/board members negotiate or help negotiate around the political system on behalf of the organisation. The survey found that the proportion of the committee/board members who negotiate or help negotiate around the political system on behalf of the organisation is the lowest in educational organisations. In short, the committee/board has less participation in dealing with external relationship of the TSOs. On the other hand, the committee/board plays a great role in seeking donations from friends and acquaintances for the organisation and negotiates or helps negotiate around the political system on behalf of the organisation.

If the funds of the TSOs that do not have a formal procedure come from the government, organisations should report to the government. All important projects have to be reported to the government in advance and to be evaluated after completing them. The TSOs receiving overseas funds should report to the donors about the use of donations, report the implementation of work plan and budget two times every year (Guangzhou YMCA, women), or provide an annual report to the mother-in-law (e.g. China Study Society for Juvenile Crime), or report directly to the government, instead of preparing a written report (e.g. Youth Studies Society of Xuanwu District). Most of the surveyed TSOs make their activities known to the public by media including press conference (e.g. China Foundation for the Prevention of STDs and AIDS.), or media, website and brochures (Beijing Sun Special Children Assistance Center).

Conclusions

Governance is a new concept in China, and people are not familiar with it. It can mean different things to different people. Until now, the TSO governance is more popular in the TSOs than in the government, although some government departments have become conscious about the matter. But to many TSO governance refers to

internal management, (including ‘who’ and ‘how’ of making decisions). However, since 2002 there have been changes in governance and institutional structure because international organisations and donors request good governance as preconditions for funding; the concept of governance is disseminating among the TSOs because of increased research and training programmes; the rules and regulations instead of rule of man is improving self-regulation among the local TSOs; and a gradual shift from the government’s functions to societal functions.

In recent years, TSO development and governance have become key topics in China. In order to fulfil their mission, the TSOs need to create a better internal and external environment and build up a good image. In this research, by analysing different organisations, we intended to have a deeper understanding of the internal governance and accountability mechanism of the TSOs in China looking at the decision-making, financial management, planning, performance evaluation, external relationships of some selected TSOs. While, due to the legal requirements, it is highly expected that the registered TSOs will follow a corporate model of governance, many TSOs have devised their own model of governance—different variation of the model.

The research findings lead us to make some suggestions for improvement in Chinese third sector governance:

First, the TSO registration system needs improvement and taxation policy for the TSOs needs improvement. The TSOs require enhancing their capability, independence, self-governance and self-support.

A suitable legal framework for the development of the third sector in China, and laws that consider protection, encouragement and regulation of the TSOs but not only regulate them, needs to be created.

A new pattern of relationship on the basis of partnership and positive interaction between the government and the TSOs needs to be built up.

There should be a transition from dominance to social governance through cooperation, negotiation and partnership between the government, business and the third sector.

In order to create a better environment for the development of the third sector in China, the relationship between the TSOs and the government should have a fundamental transformation, that is (1) from direct administration to indirect regulation (by law, regulations and taxation policy, etc.); (2) from direct to indirect provision of public goods and services; (3) from dominated–subordinated relation to partnership; and (4) from singular administration to broad social governance with a tri-participation (including government, business and the third sector, etc.).

Various of the TSOs should also work to strengthen internal governance in order to improve accountability and capability: (1) increasing the organisational transparency and make their information of organisational structure, programmes and finance known to the public; (2) complying with some ethics, values and principles; (3) enhancing their management and functioning capability; (4) being good at using and opening up various resources, especially civil or social resources; (5) borrowing the experience of business management and improve the efficiency of functioning; (6) and striving for understanding, support and participation from the public.