The Decoupling of Organizations:
Organizational Operation under the
Non-coordinating Constraint:
A Framework for Studying the Relationship
Between
China’s Charity Organizations and the
Government

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Since late 1990s, many charity organizations have emerged in China. In January 1993, the first local charity organization in the history of the People’s Republic of China, Jilin Charity Federation, was founded. During the eight years from 1993 to 2002, 172 more charity organizations would emerge. From not a single charity organization in the whole country for over forty four years (1949-1993) to an average of more than five per province, China’s charity organizations seem to be flourishing. Meanwhile, these charity organizations all have amazing similarities in their origin and operation: most of them directly rely on the government’s departments of civil affairs at different levels. Some charity organizations have only just been differentiated from civil administration. Most of them are actually “one department, two titles.” The principals and major members of the charity

Abstract: Since the late 1990s, a large number of charity organizations have emerged in China, though there is obvious disparity between their organizational forms and their operations. Although these charity organizations have the form of nonprofit organizations (NPOs), they are in fact part of the government system. This paper aims to develop a theoretical framework, namely “organizational operation under incoordinate constraint,” to illustrate the operating logic of these charity organizations. The conflict between the government’s demand for attaining resources and the need for social control is the institutional origin of the decoupling of charity organizations’ form and operation. The decoupling of the organizational form and operation is a common phenomenon, and this theoretical framework could be applied to analyze similar scenarios.
organizations come directly from the government, and they are operating based on a governmental logic.

Robert Merton reminded us that researchers should pay attention to those social facts that seem to happen unexpectedly and out of order, but concern society as a whole. For, it is these unusual phenomena that present the possible starting point for new theories (Merton, 1986). I think that the emergence and proliferation of charity organizations in China, in as short as eight years, is an uncommon phenomenon worthy of close attention for the following reasons.

Firstly, for more than forty years since the founding of the People’s Republic of China, charity activities had been regarded by the Communist Party as a tool of imperialism and Kuomintang (the National Party). They were impugned as hypocritical and fraudulent. However, in the last ten years, the Chinese government has redefined charity projects as a sublime enterprise, praising and supporting them. There is a sharp contrast between these views of charity organizations as hypocritical and fraudulent and the noble embodiment of the moral civilization of socialism. This prompts us to consider the reason for this transition.

Secondly, although publicly these charity organizations declare themselves as civil NPOs, they are actually established by departments of civil affairs, with the principals and major members coming directly from the government. Furthermore, these charity organizations operate on a logic very similar to that of the government, resulting in the obvious separation of the organizational form from actual operation. This is quite different from both the characteristics of civilian organizations that we’ve come to expect, and the internationally accepted belief that NPOs should be independent from the government and self-administered (Salamon, 1998). This discrepancy between form and function deserves greater scrutiny.

Thirdly, just as Merton said, this phenomenon concerns society as a whole. The emergence of charity organizations is an institutional phenomenon, not an individual one, with the characteristics of institutionalized production.

However, Chinese academia has not paid adequate attention to these extraordinary social facts, dedicating very little research to charity organizations. In my view, this unusual phenomenon contains potential theoretical significance, and the prevailing popular NPO theories cannot account for it satisfactorily. Thus, it is very important to develop a theory that can explain the emergence of these charity organizations, as well as the mechanism of separation of their organizational form and operation. This paper aims to remedy the vacancy. Specifically, this paper seeks to use a theoretical framework to explain the following problems:

(1) Why have there been so many charity organizations established by the government? What are the mechanisms and institutional basis for this phenomenon?

(2) Formally, China’s charity organizations declare themselves civilian charity organizations, but are actually operated by the government. This illustrates the obvious separation of their form and their actual operating logic. What is the mechanism behind this non-coordination?

Review

The prevailing NPO theories have examined the appearance and function of NPOs (Weisbrot, 1974; Hansmann, 1980; Salamon, 1981). The general character of these theories is that they all explore the differences between government, the market and NPOs, by assuming that the NPO form is consistent with its operation, thus demonstrating the necessity of NPOs.

Weisbrot (1974) thinks that the nonprofit sector specializes in the provision of collective goods, starting where the government and the market are stopped by limitations in their efforts to provide public goods. Differences in income, wealth, religion, ethnic background, education level, and other characteristics, directly lead to the heterogeneity in the demands of those served by NPOs. However, the public services that the government supplies are determined by a political voting process. In the model of simple majority, the demands of the median voters determine the outcome, leaving behind a large number of unsatisfied voters. This provides the functional demand for NPOs as the provider of collective goods beyond the government. The quantity of public goods provided by the nonprofit sector is determined by the degree that government could satisfy the diversified demands of voters.

Hansmann (1980) analyses the functional demand for NPOs from the perspective of the limitations of profit organizations. He thinks that
only when certain conditions are met, profit-seeking firms will supply goods and services at a quantity and price that represent maximum social efficiency. But in some instances, with institutions such as redistributive philanthropies, there is a separation between the purchaser and the recipient of the service, and there is an obvious information asymmetry about the quality of products and services between consumers and producers. The consumers are in a poor position to judge the quality of commodity or service that the producers promised to provide, which often leads to their inability to reach an optimal contract. Even when the contract has been reached, because of the information asymmetry, it is still difficult to prevent the consumer from becoming the victim of the producer’s opportunism, which Hansmann refers to as “contract failure.” If these services or commodities were provided by NPOs, such contract failure would be less likely to occur because of the non-distribution constraint. This means that an NPO is barred from distributing its net earnings to individuals who exercise control over it, such as members, managers, directors, or trustees. In Hansmann’s opinion, the non-distribution constraint is the most important characteristic distinguishing an NPO from profit organizations.

Salamon (1981) examines the comparative advantages and disadvantages of the government and NPOs, and then demonstrates the necessity to maintain a partnership between them. From his point of view, the limitations of nonprofit sector are: (1) Philanthropic Insufficiency. Because of the “free rider” problem inherent in the production of collective goods, as well as financial uncertainty due to economic up-and-downs, the philanthropic supply is insufficient; (2) Philanthropic Particularism. The objectives of charity organizations are usually special groups; (3) Philanthropic Patronism. So long as private charity is the only support for the non-profit sector, those in control of the charity resources can determine what the organization does and whom it serves, without considering the actual demands of the objectives; (4) Philanthropic Amateursm. For financial reasons, NPOs often cannot provide wages adequate to attract professional personnel. Much of the work is thus done by well-meaning amateurs. Significantly, NPO’s weaknesses correspond well with the government’s strengths, and vice versa. The government is in a position to generate enough resources to develop welfare projects by legislation, to decide the use of capital, as well as the categories of services on the basis of a democratic political process, and to prevent the abuse of privilege and paternalism in the provision of services by a distribution of power among the public. However, the government usually cannot respond immediately to social demands because of its bureaucracy. NPOs are in a better position to provide personal services according to the needs of their clients, to operate on a smaller scale, and to permit competition among service providers. Due to the complementarity of the government and NPOs, as well as the government’s consideration of transaction cost in its service provision, it is essential for the government and the nonprofit sector to cooperate.

In Weisbord’s theory, the consistency of an NPO’s form and operation is accepted as a self-evident presupposition, failing to account for the phenomenon in China’s charity organizations. Meanwhile, “government failure,” in his theory, refers to the fact that in the democratic process government decision generally represents only the preference of the median voters, which cannot satisfy the other voters’ demands. This too, obviously, differs from the political environment in China. Thus, his theory is not robust enough to account for the situation I am exploring here.

Salamon’s theory is also unable to explain the emergence and operation of charity organizations in China.

Firstly, as for the income resources, the Chinese government does not provide financial support to NPOs and then consign public services to them. No contract of principal-agency exists between the government and NPOs. NPOs’ capital derives from civil society, not from the government.

Secondly, in China the government does not act as the “provider of finance and director,” as Salamon describes it in the United States. The government has the power to appoint key personnel and to use a significant amount of the NPOs’ funds, thus infiltrating itself into charity organizations. Due to this over-intervention of the government, the civilian quality of charity organizations is then altered.

Thirdly, China’s NPOs lack the organizational strengths that Salamon describes. My investigation illustrates that China’s charity organizations are plagued not only by philanthropic insufficiency, philanthropic amateurism, etc., but even function with maladies similar to, or even worse than, those
goals and policy that constitute a rational theory of how activities are to be combined. However, the blueprint is not always put into practice. An organization in an institutionalized environment often faces the following problem: because of the pressure posed by the myth of institutions, an organization has to design some formal structures accordant with the institutional environment, although these structures are not related to, and later may even conflict with, the technical efficiency of the organization. To solve this puzzle, a rationalized organization adopts the method of “decoupling” to separate its formal structure from its actual operation. But as a result, some formal structures exist only for ceremonial purposes, while the actual activities still follow the demands of technical efficiency. This strategy not only preserves the legitimacy of an organization in the institutional environment, but also allows it to maintain a certain level of efficiency.

The inconsistency described by Meyer and Rowan, though instructive, is far from all encompassing. The case of Chinese charities requires a new theoretical framework. I use the term “decoupling” to describe the separation of an organization’s form and its actual operation. It is assumed that there are three types of organizations (A, B, and C) and that one particular organization should undoubtedly be classified as A. However, if its manner of operation resembles that of B, then we can say that this organization is decoupled.

The charity organizations in China are obviously decoupled. Formally, these charity organizations have the forms of civilian NPOs, and maintain their status as NPOs in their charters and in various public forums. But they are, in fact, the product of governmental civil departments, and most of them actually operate within the same sector as their department, distinguished in name alone. The principals and key members come directly from the government. What’s more, important decisions and operating processes are brought into the government’s operating system. Judged by their essential operations, these charity organizations are better classified as part of the government system than non-governmental and voluntary NPOs. There is a clear discrepancy between the forms and operating logic of Chinese charity organizations.

4. Noncoordinating Constraint

Meyer and Rowan (1977) do not specifically discuss noncoordination in an institutional environment, but they do imply the existence of a diversity of environments. From their point of view, the rationalized institutional environment is differentiated and pluralistic, and it is manifested in many forms and appearances. In their discussion, public opinion, education, institution, law, courts, belief, ideology, technology, the structure of regulation, encouragement, certification, the authorization and requirement of the government are important elements in the institutional environment. Obviously, inconsistent institutional myths prevail in society, and the requirements of an organization posed by different rules may conflict or compete with each other. As a result, when organizations in search of external support and stability incorporate incompatible structural elements, they face structural inconsistency, which is the source of uncoordinated constraint. The degree of noncoordination of the institutional environment is closely related to the uncertainty that an organization faces—the less coordination, the higher the uncertainty (Scott, 1992, pp. 135). In response to high uncertainty, rational organizations will adopt all possible operating methods to create better survival conditions.

The Logic of Decoupling an Organization

Why does this process of decoupling occur? Since the operations of some organizations are obviously inconsistent with their organizational form, and in fact similar to that of another type of organization, why doesn’t the organization adopt an organizational form consistent with its operation and achieve a correspondence between form and content? The answer to this question concerns the process of the organizational decoupling.

1. Organizational Decoupling and the Acquisition of Resources

The most important factor in the pursuit of resource is scarcity. As population ecology reminds us, organizations must compete with each other for scarce resources. It has been observed that a large number of organizations eventually die, due to the lack of resources in a given environment that are necessary for survival (Hannan & Freeman, 1977, 1981; Aldrich, 1979). The resource dependence theory emphasizes the dependence of organizations
prescriptions will not be regarded as organizational form in this study. It is often embodied in the charter of an organization. Secondly, the contents of the organizational form must be publicly declared, so, any secret, internally transmitted content does not belong to organizational form in this study. Thirdly, organizational form is the prescriptions about an organization’s tenet, quality, manner of operation, and normative order, not the other things. Whether an organization, in operation, obeys the tenet, quality and rules in the charter is not relevant to its organizational form.

Organizational form has the function of a sign or symbol. As a kind of classified knowledge, it is related to what Schutz (1980) refers to as “stocks of knowledge” of social members. It is also a part of what Polanyi calls “ tacit knowledge” (Polanyi, 1967). The understanding of social members of common organizations in daily life, which is taken for granted by actors, is acquired from the teachings and behaviors of parents, friends and teachers, etc. By using stocks of knowledge, an actor even can judge an organization’s quality and tenet directly by the name of it. For example, when seeing the title of “charity federation,” individuals will know that this is a charity organization, and it is dedicated to public service, mainly relying on a stream of resources from voluntary donations.

Organizational form has the characteristic of specificity. I use the term “Form Specificity” to describe the degree that some organizational form could be used for different purposes and by different users. Some organizational forms have high specificity, only performing actions that correspond to their forms. These actions must be recognized by resource providers, consumers, administrative agencies, and the other organizations producing similar products and services. Otherwise, they will be rejected by these agents, and their legitimacy will be doubted. Organizational form specificity not only means that certain organizational forms can only be used for a given purpose, but also that some organizational forms can only be used by specific actors.

Charity organizations have high form specificity. Since charity resources depend on voluntary donations of time and money, charity organizations should be classified in the category of the nonprofit sector according to the general standards accepted by society. Thus, charity resources are not suitable for use in the form of government, or the legitimacy of government actions will be affected. Furthermore, they are likely to be rejected by the participants in the organizational activities.

2. Organizational Operation

Organizational operation refers to the actual activities and the operating manner of an organization under certain circumstances. The purpose of this concept is to distinguish an organization’s form from its actual operation, which is analogous to the distinction between institution and institutional practice by North (1994b). The methodological significance of introducing the concept of organizational operation is to emphasize the organization as an active agent when confronting the constraints of the institutional environment. In some sense, this concept has a similar meaning to Child’s organizational “strategy choice” (Child, 1972). Organizational operation reflects the actor’s perception, judgment and evaluation of the existing institutional environment, as well as the rational calculation to the cost and benefit of different possible actions.

Organizational operation is closely related to organizational form. Generally, organizational form stipulates the overall framework of organizational operation. This stipulation might be rigid and rigorous, or it can be flexible and loose. In operation, organizations will possibly go beyond the content prescribed by their organizational form in complicated manners. The differences between an organization’s form and its operation depend on the degree of legitimacy of the organizational form and the institutional environment’s ability to monitor.

3. Organizational Decoupling

An implicit precondition to the discussion of the relationship between organizational form and efficiency, applied by the economists studying organizations, is that organizational form is necessarily coincident with its operation (Williamson, 1985, 1991). Yet, new institutionalism frequently observed just the opposite.

Meyer and Rowan (1977) assert that a sharp distinction should be made between the formal structure of an organization and its actual daily activities. Formal structure is a blueprint for activities, including the content of an organization—-a listing of its offices, departments, positions, and programs. Theses elements are linked by explicit
illustrating the origins of institutional myths in modern society. "Many myths also have official legitimacy based on legal mandates. Societies that, through nation building and state formation, have developed rational-legal orders are especially prone to give collective (legal) authority to institutions which legitimate particular organizational structures. The rise of centralized states and integrated nations means that organized agents of society assume jurisdiction over large numbers of activity domains. Legislative and judicial authorities create and interpret legal mandates; administrative agencies—such as state and federal governments, port authorities, and school districts—establish rules of practice; and licenses and credentials become necessary in order to practice occupations. The stronger the rational-legal order, the greater the extent to which rationalized rule and procedures and personnel become institutional requirements" (Meyer & Rowan, 1977, pp. 347).

The essential quality of the state is that it is the dominant corporation and monopolizes legal violence and coercive agencies (Weber, 1997). As the only agent legally monopolizing coercion, the state has the power to determine which institutions can exist, although it cannot decide how an institution works (North, 1994a; Lin Yifu, 1985). Due to its monopoly of legal violence, the state can institutionally control other organizations' internal management and operation, forcing these organizations to operate according to the interests of the state. This, of course, results in these organizations' deviation from their original operating model prescribed by their organizational forms.

The most crucial cause in the decoupling of charity organizations is excessive state intervention. There is a tension between the government's demand for the acquisition of resources and the need for social control. On the one hand, the state relies on these charity organizations to attain charity resources to help it overcome threats to its survival. On the other hand, the state is concerned that organizations of a purely civilian character will be difficult to control. Without a constitutional constraint, the state legally intervenes in the operations of charity organizations by establishing rules designed around its own interests, which brings about the separation of form and operation in the charity organizations. In China, the most important manner in which the state can intervene in a charity organization's operation is to directly appoint its leading administrators. At the same time, by putting into effect the "Regulations of Social Organizations' Registration and Management," the government has established a double, hierarchical management system, which specifies that the management of social organizations is to be shared by its own administrative offices and its superior professional government departments. According to this regulation, at the moment, the administration of all Chinese social organizations is to be performed by the Ministry of Civil Affairs of the People's Republic of China, and local civil affairs offices at various levels above the County. The superior professional government department refers to the government agency that directly supervises and manages the organization's daily activities. (Wu & Chen, 1996). With these rules, the government incorporates the important activities of charity organizations into the scope of government administration.

Several Propositions Concerning the Relationship between China's Charity Organizations and the Government

So far I have established a theoretical framework to analyze the inconsistency between organizational form and operation. This framework is abstract and general. Specifically, it is necessary to establish a set of propositions to explain the specifics of the emergence and operation of China's charity organizations.

Proposition 1 (the "coercion" proposition): Government is the most important organization in society. The crucial difference between the government and other organizations is that the government monopolizes legal power and legally employs coercion. So, the government can unilaterally determine which institutions can exist. In China, the coercion of the government is especially obvious.

Proposition 2 (the "legitimacy" proposition): The government's behavior and method of administration is restricted by its legitimacy, and the effectiveness of its administration depends on the probability of obedience and loyalty of members of society. Implicit in that are the following two points: (1) If it is unable to resolve social problems and appease public concerns, the government will appear administratively incompetent, and its legitimacy will be doubted by
the public. As a rational actor, the government will adopt all possible methods to acquire new resources and thus eliminate uncertainty in its rule; (2) the government’s method of attaining resources faces the legitimacy constraint posed by the acceptance of social members.

Proposition 3 (the specificity proposition): Society is divided into different sectors, and each sector has its own set of tools. The government’s most significant tool is the law, the power of coercion, especially in domestic affairs. The key tool in the commercial sector is market exchange. The critical tool for the nonprofit sector is the tradition of voluntarism, depending extensively on voluntary contributions of time and money.

Taxes and government bonds are the government’s two major financial sources. Under certain conditions, the government’s ability to collect taxes is inverse in proportion to the degree of resistance from social members. When the resources attained by current methods are not enough to ensure the effectiveness of government action, the government will look for new methods of acquiring resources.

Charity resources, generally controlled by the nonprofit sector, are not suitable for direct government utilization. In countries where there is no, or only a very small, nonprofit sector, large charity resources are usually highly dispersed. In countries that have a large nonprofit sector, due to the legally specified boundary between the government and NPOs, the government would have to incorporate the NPOs into its own administration if it wanted to utilize their resources. In a country with a powerful, dominating government and almost no existing nonprofit sector, the government will very possibly create nonprofit organizations as a new form of governmental operation, meanwhile differentiating them from itself, to maintain their legitimate access to nonprofit resources.

Propositions 1-3 could be used to explain the emergence of charity organizations in China.

Proposition 4 (the “conflict” proposition): There is an enduring conflict between the government’s demand for the acquisition of resources and the need for social control; the degree of control that the government exercises over charity organizations is a dynamic result of these two conflicting needs. Generally, the need for social control is greater than that for the acquisition of resources in the government’s institutional priorities. Thus, the government will only let charity organizations help it acquire resources under the highest degree of control. However, when the level of control reaches the point where it severely hampers organizations’ ability to acquire social resources, the need for resources will become a more prominent institutional priority, and the government will initiate an appropriate alleviation of its constraints.

Proposition 5 (the “control” proposition): The level of control over charity organizations is a function of the actual right to actions of the charity organizations, the right to actions of the government, and the degree of political opposition. Generally speaking, the greater the right charity organizations actually have to certain actions, the less right the government has. Also, the stronger charity organizations’ opposition to government intervention, the weaker the weaker the degree of control.

Proposition 6 (the “coordination” proposition): The government and the differentiated charities exist in a principal-agent relationship. The more the government transfers its discretion to charity organizations, the more the charity organizations’ interests and purposes will diverge from those of the government, the more difficult it will be for the government to implement its projects, and the more improbable it will be for these projects to achieve their original goals. To maintain a conformity of interests with the charity organizations, the government will try its best to expand its power to intervene in the operations of the charity organizations. Due to the differences in the operation logic between these two, the results of such an intervention is the deviation of the charity organizations’ forms and operations.

Propositions 4-6 can be used to explain why charity organizations are decoupled.

Proposition 7 (the “dialectics’ proposition): Organizational decoupling does not mean that the government can completely control the charity organizations’ operations. Charity organizations have some agency for the following reasons: (1) Government partly relies on the resources attained by charity organizations, and the government’s dependence on charity organizations, in a sense, alleviates the charity organizations’ dependence on the government. (2) When a charity organization’s ability to acquire resources is severely compromised due to excessive governmental intervention, it is likely the government will authorize some agency and independence for the charity. They are useful only insofar as they can acquire resources. (3) Those in leadership positions
in the charity organizations, usually recently retired high-ranking government officials, are often driven by a sense of achievement, self-respect and independence, as much as by obedience and loyalty. They will possibly use the political resources they have accumulated in their past to the advantage of charity organizations when negotiating with the government. (4) It is impossible for the government to monitor all activities of charity organizations, due to the cost of monitoring. Sometimes the cost is so expensive that the monitoring mechanism becomes an empty form. As opposed to the government, the charity organizations have complete information about themselves, so it is possible for them to exercise agency through keeping information secret. The agency of charity organizations is not contradictory to the decoupling of charity organizations. The latter is the prerequisite for charity organizations to break through the barrier posed by the government and gain agency.

Conclusion

Based on empirical observations, this paper develops a theoretical framework to illustrate the possible inconsistency between an organization’s form and its operation generally, and the mechanism for emergence of charity organizations in China specifically. I have employed the concept “organizational decoupling” to describe the phenomenon of an organization’s form contrasting with its actual operation. I then clarified the logic of organizational decoupling. Decoupling is a survival strategy for organizations confronted with pressure posed by the institutional environment, and it is the result of balance seeking in an incoordinate institutional environment. The administrative crisis in government caused by turbulent environmental changes, has led to the emergence of China’s charity organizations. China’s charity organizations are differentiated from the government but not outside the political system. Charity organizations have emerged because direct utilization of charity resources by the government is restrained by legitimacy expectations posed by the institutional environment. The decoupling of charity organizations indicates the conflict between the demand for the acquisition of resources and the need for social control.

The separation of an organization’s form and operation is an important phenomenon in the organizational field, and it is an area of great potential for new theoretical development. A robust theorization of this phenomenon requires further efforts.

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