



# Hong Kong

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Throughout the 1980s and 1990s, when Hong Kong went through the transformation from a British colony to a special administrative region of the People's Republic of China (PRC), maintaining stability and prosperity was of the utmost significance to the people of the territory. However, this desire for stability had the undesirable consequence that institutions in both public and private sectors developed inertia against making change and adjustments. As a result, many of the existing institutions, including those from the civil society and the nonprofit sector, were not prepared for—and were sometimes unwilling to cope with—the multitude of challenges that were waiting to unfold. Since the handover in 1997, unprecedented challenges have been confronting the new government, beginning with the Asian Financial crisis, followed by a series of political and economic turbulences, not to mention the recent SARS outbreak. As events gradually unfolded, it became obvious that institutions in various sectors needed to make changes, but at best they were responding to events instead of being proactive and eager to embrace change. Parallel to the overall theme of the APPC research project, this article attempts to examine how Hong Kong's nonprofit sector and civil society organizations have responded to the rapidly changing environment during Hong Kong's transition period, particularly with reference to nonprofit governance and legitimacy, as well as issues related to nonprofit accountability and transparency.

It is now obvious that in order for Hong Kong to continue its prosperity, all sectors in Hong Kong, including the civil society, need to revitalize existing operations and be able to embrace change. As in the case of the nonprofit sector, this requires strong community initiation and leadership. Unfortunately, as will be seen in this article, the nonprofit sector at present is still by and large subservient to the state sector, both in terms of funding support as well as taking initiatives in setting the community agenda.

## **Role and Influence of the Nonprofit Sector in Hong Kong**

At present, the first comprehensive study commissioned by the government to examine the make-up of Hong Kong's third sector is still underway, and the results will be available in late 2003. No other studies are currently available to offer a

comprehensive picture of the nonprofit sector in Hong Kong. However, it is safe to say that due to the influence of British traditions in the territory, the character and makeup of the third sector in Hong Kong closely resembles that of the United Kingdom. Voluntary associations of various kinds have long been serving important social functions including service provision, advocacy, interest articulation, and civic participation. There is a strong nonprofit presence in areas including arts and culture, education, health, social welfare, recreation and sports, merchants' associations, business and professional associations, among others.

While the role and influence of the nonprofit sector has been largely shaped by its colonial history, equally important is the makeup of the early local Chinese population comprising mostly refugees coming from different provinces of China. Due to the lack of resources, colonial rulers in early times were reluctant to provide community services to the local Chinese population. Self-help and mutual help were thus developed to fill the service gaps, and the common social origins of the immigrant population—often sustained through civic organizations like clansman's associations as well as other religious and cultural groups—played an important role in linking people together for collective problem-solving. Hong Kong thus has a long history of civil society activity, which was again strengthened during the two world wars, when there were tremendous service needs. In addition to clansman's associations and indigenous religious and civic groups, western-styled welfare agencies, international relief agencies, and branches of overseas religious bodies all set up bases in Hong Kong during the 1950s and 1960s. Both overseas and indigenous philanthropic resources were raised to fund the activities of the voluntary sector, which were much welcomed by the then colonial government. There was once a truly pluralistic scene of civil society development in Hong Kong.

With the rapid economic development that began in the 1970s, however, the situation has changed considerably. Rapid economic growth has led to the emergence of a strong business sector, which has also generated the necessary resources to beef up the state and bureaucracy. With increasing public resources available, the colonial government was under great pressure to improve welfare provision. When the government began to take on more responsibilities in providing different types of welfare services, it soon realized the benefits of using civil society organizations in service delivery, and saw that these organizations could serve as an effective interface between citizens and the colonial government. The nonprofit sector responded positively, and the public-private partnership supported rapid development of services in various areas including education, health, and social welfare. Ironically, now, after decades of public funding, the increased state involvement has not strengthened but instead crowded out the once robust civil society sector. At present, government spending on education, health and welfare accounts for over 60% of



the government’s annual budget and the government is nearly the sole source of funding for all three service areas. Both the public health and education sectors are close to becoming exclusively state-supported, and over 90% of social welfare services are also funded by government subventions, though most services are still delivered by some 180 social welfare NGOs. Thus, increasingly, the nonprofit sector has become an extension of the bureaucracy. This is contrary to the general belief that Hong Kong’s is a small government, and that a minimalist approach of government is being adopted. As for other civic associations like the clansman’s associations, even though many of them still exist today, their importance has also faded, and their functions have been taken over by new social networks.

**Drivers for Change since the 1990s**

Hong Kong’s civil society organizations thus have long undertaken functions in service delivery, advocacy, interest aggregation and articulation, as well as served as a medium of civic participation. Most Hong Kong people would be familiar with the service delivery and advocacy roles of nonprofit organizations, which were given a more prominent and visible presence under the late colonial rule. Moving into the post-colonial period, in realizing the goal of “Hong Kong people running Hong Kong”, the other two civil society functions, i.e., the articulation of community interests and enhancing civic participation, have had far greater implications on effective public governance.

The situation became even more complicated in the 1990s. Several parallel trends led to greater attention being given to nonprofit governance and organizational effectiveness. The changing political and socioeconomic environment both during and after the handover period have further augmented those effects:

***Demands for Administrative Reform***

Following the pattern of many modern governments, various public sector reforms have been initiated throughout the 1990s in Hong Kong that have led to fundamental changes in the government’s funding policies to nonprofit organizations. For example, in the welfare sector, continuous and wide-ranging changes have been introduced, which include the introduction of the Service Performance Monitoring System, funding and service agreements, service quality standards, new models of allocating new services, enhanced service integration, and most importantly, the implementation of the Lump Sum Grant (LSG) funding system. This system—by replacing the original input-based funding system that ran on a reimbursement basis—has triggered much controversy, because of its impact on job security and salary protection for professional social workers. It has taken the government nearly a full decade to implement the new funding system. Similar

administrative reforms, which are widespread in different policy domains, call for improved cost-efficiency on service delivery. As a result, improved NGO corporate governance and organizational effectiveness are being emphasized, but very often focus only on effective financial management based on market principles.

### ***Demands for Community-Based Problem-Solving and Government Partnership***

Another observable trend in Hong Kong is the call for inclusive and participatory governance in dealing with complicated community problems that are often intractable when the state sector acts alone. An example is the establishment of the “Community Investment and Inclusion Fund” by the government in 2001 and the related emphasis of developing a vibrant third sector promoting self-help and mutual help. The associated agenda of building social capital and enhancing capacity building among nonprofits also calls for improved internal governance and organizational effectiveness among those nonprofits. One should however note that the government’s initiatives have been instituted amidst pressure for wider political participation, and calls for democratization in both the executive and legislative arms of the government. It is thus unclear if it is the government’s genuine desire to materialize community governance, or if these measures have been engineered to ease political pressure. Either way, since the initiatives for community governance were instituted by the government, those initiatives might have the opposite effect in that civil society organizations might become even more subservient to the government. This possibility has already aroused growing concerns in the civil society sector.

### ***Transformation of the Administrative State***

Attaining effective public governance has been a huge challenge to Hong Kong, both when it was a colony and after it became a special administrative region of China. Past commentators have credited the effectiveness of the “administrative state” in successfully governing Hong Kong, with the nonprofit sector only viewed as marginal to public governance. Yet, it was also true that with the running of the administrative state, public governance was made possible by a large network of advisory boards, ad hoc committees, rural committees, civic and voluntary associations, as well as individual citizens, which the government would consult routinely in the policymaking process. Since the inception of the new Hong Kong Government, the administrative state has been encountering multifaceted and unprecedented challenges. On the one hand, raised public expectations on government performance and prolonged economic recession have rendered public governance a much more difficult task. On the other hand, there are ever-increasing demands for political reforms, while understandably the authorities are considering a rather slow, if not stagnant, pace of democratization. The government has thus been caught in a situation where the old colonial governance scheme has become

totally obsolete, while movement toward a western-style full democracy has also been ruled implausible. Consequently, it has to look for a new way of governance, and a new model of “government by consensus” has to be developed. Incorporating civil society and third sector organizations in the governance scheme would help enhance public governance. Formal and credible mechanisms have to be instituted to materialize participatory and inclusive governance.

**Moving Forward: Issues to Address**

If the trends depicted above concerning the interactions of sectors and the positive role of the nonprofit sector in effective public governance are correct, it would have significant implications on improving the quality of public policy discourse. But there are still many questions to address, such as:

- What new governance arrangements would be necessary for coping with the new challenges faced by the new Hong Kong Government after handover?
- According to Chief Executive Tung Chee Hwa’s Policy Address, it appears that the government is keen to collaborate with the voluntary “third sector” to enhance the legitimacy of policy making. If this is the intention of the government, what are the needed adjustments for both the state and nonprofit sectors in order to successfully achieve this collaboration?
- What are the exact linkages between the different levels of governance (internal governance of nonprofits, sector-wide governance over certain policy domains, and public governance) in Hong Kong? And do we have a solid understanding of the underlying mechanisms that could allow us to enhance governance at all levels
- What about the issues confronting civil society organizations themselves in terms of legitimacy, transparency and accountability? Do the leaders from civil society organizations perceive themselves as having such an imperative role in enhancing public governance, or do they consider themselves as merely serving localized needs or specialized interests?

In addressing the above questions, several group discussion meetings were arranged and some very broad observations have been gathered regarding the latest changes and developments around the perceived roles and standing of civil society organizations.

***Service Delivery***

Without a doubt, NGOs in Hong Kong will continue to serve an important role in delivering public services. The nonprofit sector is still being regarded as a trustworthy, relatively inexpensive partner in service delivery. Yet, the sector does

have to change its past image as just an extension of the bureaucracy and restore its own independent identity. The challenges are to enhance service effectiveness, place greater emphasis on outcome and social impact, and balance professionalism with spontaneity. The renewed emphasis on NGO corporate governance and organizational effectiveness is a good sign, but over-emphasis on financial accountability and non-strategic use reporting and evaluation may have diverted the efforts in the wrong direction. Excessive government regulatory measures and rules of funding bodies might even weaken corporate governance. In short, the sector must learn to govern professionally but not allow either professionalism or managerialism to dominate its agendas.

### ***Building Social Capital***

With the acknowledgement of the limitations of the state sector in dealing with many community problems, civil society organizations are being looked to and are thus welcome partners of the government in developing local solutions to address grassroots problems. The establishment of the Community Investment and Inclusion Fund, as noted above, is a good sign of the state sector supporting the development of social capital and civil society. Given that the current highly centralized mode of government has not achieved desired policy outcomes, incorporating bottom-up initiatives with emphasis on communities and social capital could at least smooth the policymaking process. In this sense, NGOs are not merely viewed as inexpensive service providers, but as bridges to the community that facilitate policymaking and implementation.

### ***Advocacy***

Despite its recognition in areas such as environment, human rights, labor, and housing, the third sector in Hong Kong seems only lightly populated by well-organized advocacy groups and research-oriented think tanks. While the situation has been changing gradually and the number of advocacy groups will likely grow, two pending issues need to be resolved. First, most of the advocacy groups at present do not have a broad membership base and are not deeply rooted in the community. Therefore, the government could easily dismiss their opinions. Second, many NGOs—even the Hong Kong Council for Social Service—are substantially funded by the government. It would be difficult for those government-funded nonprofit organizations to be truly independent in performing their advocacy functions. The government has also openly noted that while it affirms the advocacy role of NGOs, it does not think those activities should be funded by public money. In order to claim legitimacy to better serve its advocacy role, the sector has to engender greater community representation and achieve funding independence.

***Legitimizing Public Governance***

Workshop participants noted that the notion that engaging the civil society would be a desirable means to legitimize public governance is widely supported, but that the real challenge is to turn the rhetoric into practice. Different means to materialize the concept were suggested. At present, an appointment system is still widely used by government in appointing members to the district councils and for various advisory committees. While the inclusion of appointed members could be a balancing force in the councils/committees and could provide essential information and expertise, their role as true representatives is often questioned by the elected members. Thus it would be useful if the appointment system could be made more credible through the development of a pool of civic representatives, and a rationalization of the mechanisms for making the appointments according to civic representation. It was also suggested that future election systems for the legislature and even the chief executive could follow a similar approach in introducing an element of civic representation into the electorate. The election system of the legislative council is due to be reviewed in 2007, and according to the Basic Law (the mini-constitution of Hong Kong) there are no specific limits on the election system. Instituting the concept of civic representation to complement direct elections and functional constituency elections, would be a considerable upgrade and arguably a good interim measure before ultimately transforming into full direct elections as specified in the Basic Law.

***Nonprofit Governance Challenges in Hong Kong***

In order to meet the many emerging new demands, it is imperative that the internal governance of nonprofit organizations in Hong Kong be enhanced. However, the present situation in Hong Kong is not so optimistic. Following are some of the problems faced by the nonprofit sector in Hong Kong.

***Stakeholder Issues***

Given that there are no real owners in nonprofit organizations, a rather pessimistic view is that it is virtually impossible to exercise effective governance control under most circumstances. Board members of nonprofit organizations are often trustees who serve the interests of service beneficiaries who often cannot stand up for their own rights. The business sector was used as a reference in many discussions, and the case of Enron and other US corporate scandals were noted as typical governance failures even in situations where enterprise ownership could be clearly defined. While the notion of multiple stakeholders was noted in the discussions, it was described as more of a challenge than a solution for nonprofit

governance. In fact, the state of stakeholder interactions in philanthropy in Hong Kong is considered unsatisfactory at present. This is attributable to several factors including the secretive nature of many foundations and funding bodies, transparency issues within nonprofit organizations themselves, and power differentials between stakeholders.

### ***Difficulties in Recruiting Committed and Capable Board Members***

With the changing social environment, good board members not only need to be committed to their cause, they also need to possess the expertise to govern their organizations in a professional manner. In the past, many board members participated in nonprofit activities simply out of a sense of community service, and didn't realize that they are liable for fiduciary mismanagement. It is still common among many civil society organizations that board members are selected within closed circles. There are no formal tenure restrictions in many cases, and the same group of people could potentially serve on the same board for a long time. Unfortunately, without the injection of new blood, innovation is stifled. The situation is not just confined to one or two service fields but widespread in different areas. Worse still, there are situations where an organization has difficulty identifying suitable candidates for its various board positions, and so those eventually engaged are unlikely to be fully committed to the work.

### ***Organizational Resistance to Changing Governance Models***

Due to rigid government regulatory measures in service fields such as social welfare and education, governance functions have rested in the hands of government officials and service professionals for several decades. Therefore, the renewed emphasis of independent board governance is seen as a threat to many. While some agency CEOs might accept the challenges, many of them encounter great resistance from the organizations' mid-level managers. Similar to board members, many agency CEOs lack the expertise to institute the new corporate governance model. From time to time they also encounter value conflicts when managerialism is increasingly being emphasized to substitute professionalism and faith-based interactions. Often times changing funding rules, which are supposed to relieve and empower service agencies, have instead become an extra chore for service professionals, consisting primarily of unnecessary paperwork.

### ***Structural Problems Affecting the Legitimacy of the Nonprofit Sector***

While the discussion above refers to governance issues that are temporal in nature and could change over time, perhaps the most fundamental problem constraining the nonprofit sector is a legitimacy crisis of the sector itself. First, everyone agrees that the lack of transparency and accountability have long hindered





the progress of the sector. Whether they are incapable or unwilling to connect with the public, the secretive nature of nonprofit and philanthropic activities has hindered the sector's ability to gain broad public support. Second, government regulations on the establishment of charities and nonprofit organizations are lax, and appropriate self-regulatory mechanisms have not been developed within civil society organizations. Memoranda and articles of association are prepared for fulfilling the relevant registration requirements, and very often they are ignored once the organization has been established. Lacking the ability to take community leadership, our existing peak organizations have also failed to raise the reputation of the nonprofit sector. Lastly, few nonprofit organizations would conduct an open election of board members, even if genuine elections ever took place. Few agencies have a large enough membership base to render the election of board members meaningful. If an NGO cannot legitimately represent the constituencies it is supposed to serve, how can it legitimately represent community interests in the arena of public governance?

## **SECTORAL RESPONSES AND INNOVATIVE PROGRAMS**

Broadly speaking, most of the initiatives to strengthen governance and organizational effectiveness are government-initiated or funded by government resources, though there are also a few purely community-initiated efforts. A total of six innovative programs are documented below.

### **Government Responses**

#### ***Board Survey and Guide on Corporate Governance for NGO Boards***

The Social Welfare Department (SWD) in June 2002 published the text "*Leading Your NGO: Corporate Governance – A Reference Guide for NGO Boards*". The reference guide was distributed to the CEOs and board members of more than 200 government-funded social welfare organizations.

Rather than going through the details of the contents of the reference guide, it would be more useful here to examine the rationale and the process undertaken in preparing the document. The guide was initiated by the Lump Sum Grant (LSG) Steering Committee, an *ad hoc* committee established to deal with matters related to the implementation of the LSG funding system. Under the LSG funding model, NGOs are given more flexibility and autonomy to manage the use of subvention funding, in an atmosphere of relaxed government control. When the notion of corporate governance gained center stage, the government issued the *Lump Sum Grant Manual*. Then, at the request of the welfare sector, the government agreed to put in extra efforts to develop a knowledge base for assisting social welfare NGOs

to strengthen their corporate governance. In addition to arranging workshops and seminars for staff and board members and commissioning a baseline research study, the government referred staff to a best practice guide from a Canadian source and, after consultation with the sector, developed the local reference guide discussed here.

In addition to compiling the reference guide on corporate governance, the SWD, as advised by the LSG Steering Committee, has also commissioned a local university to undertake an exploratory survey of board members of social welfare agencies funded by government. The objectives of the survey study are threefold:

- Obtain an overall profile of boards of directors of subsidized NGOs in Hong Kong;
- Gain more information about NGO board governance; board membership composition; and board member perceptions and expectations of their own roles and responsibilities, as well as their attitudes towards welfare reform and organizational effectiveness among NGOs; and
- Identify training needs for directors and in other areas to improve board effectiveness and thus organizational performance.

Questionnaires were sent to 184 NGOs funded by the SWD, and in-depth interviews were also conducted with selected CEOs and board members of those NGOs. The overall response rate of the survey was 46%. Some of the study's recommendations are summarized as follows (Chan, et al. 2002):

- Training and support services should target areas such as leadership, strategic planning, board management, public accountability, and risk management. Training programs should be provided separately for CEOs and board members.
- More attention should be diverted to responding to community needs and service innovation for addressing emerging community needs.
- Stakeholder interactions should be strengthened and communication should be improved for better accommodating the views of service users and nonprofit staff members.
- Communication between the agency CEOs and their boards should be strengthened through properly instituted mechanisms.
- Support should be offered to small NGOs in helping them to look for suitable candidates to serve on their boards; existing peak organizations should offer better assistance in this regard.
- Induction programs for new board members should be provided, which could be organized at both the agency level and the sector level.

***The Education (Amendment) Bill 2002 Regulating School Board Governance***

The Education (Amendment) Bill 2002 was submitted to the Legislative Council in November 2002. The bill aims to introduce the school-based management (SBM) governance framework to all aided schools in Hong Kong, which are operated by school sponsoring bodies (SSB)—a wide range of nonprofits, including religious groups and clansman’s associations, who are substantially government funded. Similar to other administrative reforms, SBM seeks to provide aided schools with enhanced flexibility and autonomy in managing their own operations and resources. It also aims to increase transparency and accountability in the use of public funds and school operations by providing for a participatory decisionmaking mechanism where all key stakeholders are involved. At present, the majority of primary and secondary schools are aided schools operated by SSBs. Major recommendations of the Bill could be summarized in the following six areas:

**Registration of School Boards:** At present, School Management Committees (SMC), (i.e., the school boards) are not required to register as incorporated bodies and the “school managers” (i.e. the board members) may attract civil liability. The bill recommends that all SMCs be requested to register as incorporated bodies in order that legal liabilities will vest in the incorporated SMCs as a collective body.

**Composition of School Boards:** The bill recommends that teacher, parent and alumni representatives be introduced to the school boards, while the School Sponsoring Bodies would be given the right to nominate up to 60% of the total membership of the school board.

**Maximum Number of School Boards to be Served by Any Individual:** To ensure the board member has sufficient time to get to know the school and to attend school board meetings, a school manager may serve on no more than five school boards. There was a case in the past where a particular person had served on as many as 75 school boards at one time.

**Removal of Board Members from Office:** The new school boards can remove any individual board members who, without acceptable explanations, have been absent from three consecutive board meetings. Also, the government would be given the power to appoint board members to a school board when it has found that the provisions of the Education Ordinance have been contravened.

**Constitution of School Boards:** The SMC in each school will draw up its own constitution. Each constitution will address specific matters including the composition of the school board and its membership, the tenure of office, arrangement for filling vacancies, selection of school principals and the means by which the constitution may be amended.





with information on the track record of bona fide charitable organizations that carry out regular fundraising activities. Under the proposed scheme, the role of the government would be restricted to making the public register available for public inspection, and strengthening its hotline capacity so as to respond to increasing public enquiries. Entry onto the register will be processed through application by fundraising organizations, and updated and reconfirmed regularly. In order to put in place such a registry, the government needs first to develop certain guidelines on charitable accountability for voluntary compliance by different kinds of charities, including fundraising NGOs. Yet, under the present proposal, the government will not proactively monitor or enforce adherence of the guidelines. Only upon receipt of complaints against a charity’s actions will an independent committee will be asked to adjudicate whether the complaint is valid. The government considers the proposed approach has the following strengths:

- The government will leave the guide in the hands of the members of the public to ensure its wide acceptance;
- Adoption of the guide will be on a voluntary basis depending on what the governing board of the charity decides;
- Donors and the general public will have a commonly accepted benchmark for making informed choices and monitoring charities;
- The guide will help avoid over-regulation, which may stifle bona-fide charitable fundraising activities; and
- By avoiding the legislative process, implementation of the system will be faster, and the costs will be lower.

On the other hand, the government admits that there are weaknesses in the system in that there are no effective sanctions, since offenders will not be penalized in court; and it is likely that the time required to identify misbehavior, register complaints, and adjudicate may be considerable.

***Joint Business Improvement Projects***

In yet another measure to facilitate LSG reforms, one-off project grants have been made available by the government for social welfare NGOs who are making the transition to the LSG funding mode. The initial focus of the funding scheme covers three areas: organizational improvement; service efficiency; and service reengineering. While many agencies preferred to undertake their own individual projects, the Hong Kong Council of Social Service (HKCSS)—the umbrella peak organization serving most of the social welfare NGOs in Hong Kong—spearheaded the Joint Business Improvement Project (JBIP), in which seventeen social welfare

agencies including the HKCSS jointly participate. The initial focus is on strategic and change management, and human resources management.

## **Responses by Civil Society**

### ***Self Help Development Centre Established by Oxfam Hong Kong***

Oxfam Hong Kong commissioned a research study in 1998 to investigate the status of the self-help movement in Hong Kong. Based on the recommendations of the study, the Self Help Development Centre was established in December 2001 to support the self-help movement and to serve as a clearinghouse for nascent self-help groups. The Centre thus serves a “nonprofit incubator” function and at present has the capacity to accommodate as many as 20 self-help groups in its rented facility, where centralized administrative support is offered to the self-help groups at a highly subsidized fee. Other service features of the Centre include:

- Use of meeting and training facilities
- Information dissemination and sharing, assistance in locating community resources
- Volunteer recruitment services
- Umbrella professional support services such as accounting, legal counsel, and other consulting services
- Practical training, such as proposal writing and bookkeeping.

In addition to offering an overall enabling environment, the Centre also aims to help clarify fundamental service issues involved in running self-help services (e.g., Are they here to serve or be served? What is the true meaning of empowerment? What should be the right balance between professional help and mutual help?).

### ***Workshop Opportunities Offered by the Creative Initiatives Foundation***

The Creative Initiatives Foundation (CIF) offers workshops for nonprofit groups and organizations to enhance their organizational effectiveness. Promoting the use of group creativity problem solving techniques, Creative Initiatives workshops are developed by management experts, and have been carefully fine-tuned to enable the participating group or organization to: a) build consensus regarding the issues and problems that are affecting its efficiency and efficacy; b) determine the best and most practical solutions to the issues and problems in light of competing needs and resources; and c) formulate consensus regarding the group or the organization's future direction.

The workshop outputs typically include a list of initiatives that the group or organization needs to implement to fully realize its potential. At present, three types of workshops are offered by CIF.



**Awareness Workshops:** Awareness workshops are half-day events organized for small teams of participants from the same nonprofit sector (e.g., arts and culture, social services, environment, etc.) who gather together to creatively address a common problem such as fund-raising, audience widening, service delivery, or corporate governance.

**Workshops for Nonprofit Organizations:** NPO workshops bring policymakers, administrators, managers, employees and other stakeholders of a given nonprofit organization together for the purposes of addressing significant problems and issues, revisiting the organization’s vision and mission in light of changes in the operating environment, and performing needs assessments and strategic review.

**Workshops for Groups with Shared Interests:** These are “sector-wide” workshops that bring a diverse group of individuals, sector stakeholders, government agencies and business representatives together for the purpose of: a) formulating a shared vision for the group or service sector; b) starting a public interest association or a sector-wide organization; and c) determining strategies for influencing public behavior or government policy.

Since its inception in 1997, the foundation has assisted more than fifty nonprofit organizations to enhance their organizational effectiveness through its workshops. CIF has had a keen interest in promoting capacity building among nonprofit organizations and sectors, and is now considering different options for promoting family and community philanthropy in Hong Kong.

In summary, both the board survey and the guidebook prepared for social welfare NGOs have emphasized enhanced corporate governance and public accountability, but in both exercises arguably there is a strong feeling of the welfare sector demanding help from the state in enhancing internal nonprofit governance, and the call of increased public scrutiny seems to have translated into increased reporting in the use of public funding to government. Lacking in the core discussion is how the public could have greater involvement in the new structure of corporate governance and public accountability. The proposed reform in the governance of the education sector is markedly different from that of the welfare sector, given that one pursues the legislative route while the other stresses self conformance. There are inconsistencies in the policy designs across sectors, and the government has yet to establish general principles on public accountability that could help nonprofits engender public engagement and support. Compared to the government-initiated programs, the two self-initiated efforts from civil society are of much smaller scale, but potentially could make great contributions toward capacity building among civil society organizations.

**CHALLENGES FOR THE CIVIL SOCIETY SECTOR**

As with many other Asian countries, improving internal governance and organizational effectiveness is of great importance in furthering civil society advancement in Hong Kong. Some of the issues and problems affecting the governance of nonprofit organizations have already been examined in the previous discussion, including problems in ascertaining agency ownership and the lack of stakeholder interactions, difficulties in recruiting qualified and committed civic leaders to serve as board members, organizational resistance to changing governance models, as well as structural problems affecting the overall legitimacy of the sector. In addition to internal corporate governance issues, there are a wide range of other challenges confronting civil society development, and some of the most critical issues are identified here.

**Developing a Genuinely Independent Sector**

A recurring theme in our discussions was a call for a genuinely independent voluntary sector, which would be self-sustaining, self-regulating, and self-governing.

***Self-sustenance***

The civil society sector in Hong Kong currently receives a substantial amount of its funds from the government, and the situation is indeed very unhealthy. With subventions in areas such as education and welfare, the once very robust civil society has gradually turned into an extension of the bureaucracy. The emerging new government funding models, whether based on market or communitarian principles, do not fundamentally alter the power differentials between the two unequal partners. In fact, one might argue that both the government and the nonprofit sector still have not changed their deep-rooted mindsets regarding models of civil society development. In response to advocacy efforts by civil society groups, the government creates funds for emerging services. But without the necessary mechanisms to engender community support, those service funds become the dominant funding source in the relevant service fields, which then leads to undesirable consequences in terms of development of related civil society groups. Developing indigenous philanthropy is therefore of the utmost importance, but for a wealthy international city like Hong Kong, the status of community philanthropy and local sustainable development is by and large disappointing.

***Self-regulation***

Enhancing accountability and transparency in the nonprofit sector requires a delicate balance between board governance, professional supervision, and formal funder monitoring. Only after credible self-regulatory mechanisms are properly instituted, can the sector make a strong case to government as well as to other funding bodies that excessive monitoring using bureaucratic or market rules are





indeed unnecessary. Obviously, based on our previous examination, many civil society organizations at this stage are not ready to make such claims. In this article, we have seen examples of the government introducing more stringent controls in specific sectors, but little or minimal efforts were devoted to other areas where policy jurisdictions were not clearly defined. Only through intrasectoral and nonprofit/government cooperation can these problems be overcome. On the one hand, nonprofit and philanthropy laws should be carefully reviewed to provide for a more enabling environment for the nonprofit sector, enhancing its legitimacy without unduly affecting its degree of autonomy. On the other hand, a more unified self-regulatory system should be promoted, and the introduction of the proposed public register system for governing fundraising activities could be one step forward.

### ***Community self-governance***

There is nothing new about this argument but we need to develop institutions to make the concept work. In this article, we have already examined practical models that could help promote community self-governance. In one of the focus group meetings, it was suggested that the government's existing public consultation mechanism is deficient, and that a "consultation protocol" and a method of deliberative opinion polls should be developed for collecting public opinion. Moreover, one should realize that achieving empowerment does not necessarily lead to enhanced community capacity. It would be important that the right institutions are developed and the existing state-society linking arrangements are carefully rationalized to ensure that empowerment strengthens, rather than weakens, capacity among community groups.

### **Strengthening Social Infrastructures**

In order to have a self-sustaining, self-regulating, and self-governing independent nonprofit sector, we need to create the right kinds of institutions, collective action mechanisms, and intermediaries to continually raise the standards and legitimacy of the sector. We have already discussed some relevant developments here: the proposed public register for regulating charities, and a new peak organization for supporting self-help organizations. For promoting indigenous philanthropy and nurturing an endowment-building culture, the community foundation model is currently being examined by the nonprofit field, and relevant studies and workshops are being planned to examine the applicability of the model in Hong Kong. Other areas where collective efforts are now missing include an expert institution to offer nonprofit management training, and intermediary bodies to facilitate cross-sector learning and benchmarking. These institutions would help resolve complicated collective action problems. Furthermore, the development of

intermediaries or umbrella organizations would provide a leverage point to strengthen governance at both organizational and sectoral levels, and ultimately help bridge the gap between nonprofit internal governance and public governance.

## **Rationalizing State-Society Linking Arrangements**

There is also a need to rationalize the various kinds of “linking arrangements” that are currently used by government in engaging the nonprofit sector. At present the Hong Kong Government relies primarily on four types of civil society linking arrangements: a) consultative committees, b) direct subvention, c) statutory bodies, and d) specific purpose field-of-interest funds. One way or another, these linking arrangements allow civil society and grassroots organizations to participate in the public policy process and gain access to government resources. However, while the government has long been engaged in collaborative linking arrangements with civic organizations in various service fields, the institutional choices for managing state-society interactions have mostly been made in a rather *ad hoc* manner. It does not seem that the government has a rationalized framework that guides its institutional choices for managing state-society interactions. The increasing complexity of public affairs and an increasingly more demanding public, however, would render effective state-society links a must for effective governance and public administration. Effective synchronization of the different government interfaces with the civil society would be conducive to achieving state-society synergy.

## **SUMMARY**

This article has documented, in fairly broad strokes, the changing status and relevant developments of the nonprofit sector in Hong Kong. Civil society in Hong Kong once played a major role in helping local people solve collective action problems and meet community needs, at a time when both the state and market sectors had not been well developed. However, with the development of a strong market and a highly efficient administrative state, the once robust civil society has been gradually crowded out, becoming an extension of the bureaucracy, and increasingly turning subservient to the state. Bureaucratization of the service sectors has weakened community leadership further, and reliance on public funding has undermined the need to develop philanthropic resources. In the wake of its own governance crisis, the government now has renewed interest in promoting the development of a vibrant third sector. The nonprofit sector however has not responded as if it would like to resume its status as a genuine independent sector, but instead continues to seek provisions and guidelines from government. To remedy the situation, the nonprofit sector should not be limited to just following the government-initiated reform agenda. It must rediscover its torch and reestablish the leadership it once possessed.



## **ANNEXES**

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