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# The Political Economy of Service Organization Reform in China:

# An Institutional Choice Analysis

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China is widely known for its economic growth in the past two and a half decades. Less well known, however, have been the numerous efforts undertaken, especially in the past decade, to reform its governance system. Many of these governance reform efforts have sprung from the realization that in order to sustain economic growth in the long run and to maintain political order, it is necessary to develop a strong governance system that can provide the institutional support for an effective market economy. The vision for reform may lack some of the key ingredients of a modern liberal democracy such as open competition for national elected offices, but it does include ingredients that might lead to a governance framework that is more transparent, less arbitrary, and more efficient (Yang 2004).

Recent reform efforts have been targeted at various widely known problems in the existing governance system. For instance, despite the increasing size of the market-based economy, many government entities have been engaged in collecting various types of fees and fines, and set them aside as extra-budgetary items for exclusive, and sometimes, dubious use by agency personnel with little transparency or accountability (Tsui and Wang 2004). Another common practice has been for government entities, and most noticeably the military during the 1990s, to engage in various business and profit-making activities, creating breeding grounds for corruption as well as conflicts of interest, especially for agencies that have regulatory responsibilities (Yang 2004).

To address these issues, some government leaders began to endorse the concept of "limited government" or "small government, big society" (Brodsgaard 2002). They began to recognize that the key role of government should be limited to providing those public goods and services that otherwise would not be adequately and efficiently provided by the for-profit sector. Government agencies, especially those with regulatory responsibilities, should be restrained from engaging in direct business activities, which have been breeding grounds for corruption. Central leaders have gradually begun to realize that in order to build a well-functioning market economy, it is necessary to build an impartial and transparent regulatory apparatus. This has become even more urgent after the repeated worldwide news coverage on the safety problems of products manufactured in China.

Many local government leaders are known to be resistant to reform efforts initiated by the central government, and many local officials are still committed to profit-making ventures, regardless of their legality and impact on the macro-economy. But there are signs that, especially among the more economically advanced regions, local government leaders are increasingly seeing good governance as a source of economic competitiveness for their localities, which is key to their career advancement in the government hierarchy (Li and Zhan 2005). This is especially true in recent years as central government policies have increasingly prohibited the use of tax incentives and other preferential financial treatments as instruments for local governments to attract business investment (Yang 2004). Good governance and other non-financial incentives such as better environmental quality have become elements of strategic plans for local governments to enhance their economic competitiveness versus other localities. With the

drive for "limited government" and good governance, a key arena for reform has been the ubiquitous service organizations *(shiye danwei)*. As an organizational category that is probably unique to China, service organizations refer to many semi-governmental organizations that perform social or public functions, partly or fully on a self-financing basis. Yet they are not part of the core government bureaucracy, as most of their personnel do not belong to the civil service establishment (*bianzhi*), and many of them are not formally accountable to the legislative branch like core government agencies are. Service organizations also provide services such as education, health, and other social services that are usually provided by either nonprofit or business organizations in Western, market economies.

Although largely unknown to people outside China, the reform of service organizations is of critical importance to China's governance reform. To assess the prospect for successful governance reform in China, one must understand the current problems with service organizations in China, their reform alternatives, and the factors that may drive the choice of these alternatives. These also relate to a key issue in institutional choice theory—i.e., how do transaction cost considerations as well as political and institutional contexts affect the choice of alternative organizational forms for public service delivery? In addition, much of the current institutional choice literature was developed to address issues in the context of the United States and other Western, market-economies; a key question becomes how existing theories can be adapted to examine institutional choice processes in the transitional context of governance reform in China. Before proceeding to examine how service organization reform and the institutional choice literature may inform each other, we first provide a brief overview of

the definitions, size, functions, and problems of the service organization sector in China. Then, we examine as a case the reform of service organizations affiliated with the environmental protection bureau in the southern city of Guangzhou.

## Service Organizations in China: Definitions, Size, Functions, and Problems

Scholars in China disagree on the precise definition of service organizations. One accepted by many, if not all, is that used in the 1998 "Provisional Regulations on the Registration and Management of Service Organizations" promulgated by the State Council, which defines service organizations as "organizations that are engaged in social service activities such as those related to education, science, culture, and health. With an objective for advancing social welfare, these organizations are organized by state agencies or other organizations, involving the use of state assets" (Zhou 2003, p. 12). The regulations are enforced by the Personnel Establishment (*Bianzhi*) Management Agency, a government agency that oversees personnel matters in the core civil service. The services provided by service organizations include education (51 percent of the total), medical and health (17 percent), public utilities (8 percent); scientific research and development (6 percent), culture/education/media (4 percent), mass organizations and management offices (3 percent), social welfare (1 percent); and others (10 percent). (Gu 2005)—services provided by a mix of government, nonprofit, and business organizations in the United States.

A service organization is usually attached to a party or state administrative agency that has the power to appoint for a fixed term the director, and sometimes the deputy directors, of the organization. It usually carries an administrative rank equivalent to one

level lower than that of the parent agency. Yet unlike its parent agency, a service organization is less restricted in terms of numbers of established staff positions and engagement in revenue-raising activities. Thus, while a service organization may still rely on the parent agency for funding to pay for salaries and basic operational expenses, it often makes up the shortfall by running profit-making operations. According to one estimate, about half of the total revenues of all service organizations are derived from user fees (World Bank 2005). A service organization can also become an outlet for reassigning surplus staff from the parent government agency, and its employees are usually on non-civil servant terms after the establishment of a civil service system in 1994 (Chan and Li 2007; Lam and Perry, 2001; Yang, 2004).

According to this definition, service organizations as a form of government-initiated organizations are distinguished from another set of organizations, "private, non-enterprise organizations," which refer to privately initiated and run organizations that are engaged in the provision of social services, mostly on a nonprofit basis. These organizations are registered under the Ministry of Civic Affairs. While an emerging force, the number of "private, non-enterprise organizations" amounted to less than 10 percent of the number of existing service organizations—about 110,000 registered private, non-enterprise organizations compared with 1.3 million registered service organizations around 2002/3 (Zhao 2003, p. 17). Although there has been much discussion about the need to further cultivate private, non-enterprise organizations (the type of organizations that most closely resemble nonprofit organizations in the West) as the main deliverer of social services, the key policy question presently still concerns the future roles, functions, and management structures of the currently "publicly-run" service

organizations, and whether and how these organizations can be separated from their sponsoring government units.

Historically, service organizations were an indispensable part of China's socialist planned economy. The state apparatus controlled virtually all means of production and societal resources, and it established and controlled most business enterprises and civic associations. Unlike those in the West, governments in China could not rely on private business organizations or nonprofit and civic organizations as partners in providing such social services as education, healthcare, and research, because they were almost non-existent. Instead, they had to establish and oversee almost all organizations that provided these social services. But to avoid having all social service organizations subsumed under the same bureaucratic procedures of the core government bureaucracy, government entities established and financed service organizations, which maintained their connection with their sponsoring government units, while having more flexibility in their operational and financial management.

As the planned economy began to be dismantled, the need to reform the service organization sector has become more apparent. Indeed this reform needs to be a key element of any effort for reshaping China's governance system for several reasons. Most importantly, it is a huge and growing sector constituting about 25 percent of total employment, and 40 percent of government/semi-government employment in 2003—compared with 16 percent and 22 percent respectively in 1990 (Gu 2005). By the end of 2003, there were a total of 1.3 million service organizations, employing close to 30 million people (Management World 2005). Among these, about 9.5 percent belonged to

the state level, 9.5 percent to the provincial level, 23.1 percent to the prefectural level, and 57.7 percent to the county level (Management World 2005, p. 4).

In the first two decades of reform in China, the priority in reform was to separate government from direct ownership and management of most business enterprises. Although China has encountered many difficulties in the transition, it has made substantial progress especially in the past decade. Now, especially in the coastal provinces, most local business enterprises are privately owned, with the central and provincial governments retaining control of some large and mostly profit-making enterprises, some in arms-length relations with individual enterprises. Some of these enterprises are now overseen by management committees resembling boards of directors of private corporations in the West (Koppell 2007; Yang, 2004).

With much of governmental role in directly managing business enterprises shredded, the next question is to what extent service organizations can be further separated from or integrated back into government. Furthermore, reform has become more urgent as problems with the current system of service organizations become apparent. First, many service organizations have become dumping grounds for excess government personnel (Burns, 2003). Since 1998, for example, there have been serious efforts to reduce the authorized staff size (*bianzhi*) in the entire government establishment nationwide (Yang 2004). One of the key strategies for many government agencies, from the central to the local level, to meet the downsizing requirement has been to transfer some government functions and personnel to their affiliated service organizations. Partly as a result of this lateral transfer, although the total number of employees in service organizations has remained relatively stable in recent years, the number as a portion of

total public sector employment has been steadily increasing in the past decade and a half—from around 22 percent in 1990 to 40 percent in 2003 (Gu, p.7). Personnel expenses in the service organization sector have remained a heavy burden for governments in China, and continue to be a major drain on government resources. According to one estimate, funding to service organizations constitutes more than 30 percent of total government expenditure, of which 70 percent is devoted to personnel (Dong 2006, p. 8).

Second, although service organizations were supposedly established to serve specific public service missions, many have deviated from them. Some have taken advantage of their government connections and semi-government status to engage in profit-making activities. Such activities may create not only market distortions by granting service organizations undue competitive advantage over private enterprises, they also tend to distract them from their original public service missions. These activities may also create direct conflicts of interest for some regulatory agencies as they are carrying out regulatory responsibilities while providing fee-charging services to the regulated.

Third, while all service organizations were established by government agencies, many are not closely supervised by the original government agencies. For example, the head of a service organization may be appointed by the supervising government agency for a fixed term, but beyond that, there may not be any formalized mechanisms to hold the service organization accountable to clear performance standards and outcomes. As a result, many service organizations are poorly managed and lack efficiency and efficacy (Dong 2006, p. 9).

While these problems are commonly mentioned by scholars in China as the typical problems facing many service organizations in China, organizations from different arenas do not necessarily face the same set of problems. For example, service organizations in the health care and environmental protection arenas may share some similar problems, but each arena has its own unique set of problems. In the case of healthcare, most hospitals and clinics are set up as service organizations affiliated with different government entities (the military, different functional ministries, departments, etc.) at various levels of government, in many cases serving exclusively their own employees and their family members using public funds. In general, the higher the administrative level, the more funding is available for supporting such hospitals and clinics. Yet as one goes down the administrative hierarchy from the provincial and city levels to the township and village levels, the number of government-supported hospitals and clinics decreases dramatically, creating a phenomenon in which some hospitals and clinics in major urban centers may be richly funded by their parent government units but with limited numbers of patients, while most rural areas lack basic medical facilities (Dong, 2004, p. 19). In the environmental management arena, the major problem is less with equity in service delivery, but more about potential conflicts of interest arising from service organizations having both regulatory enforcement responsibilities and a profit motive.

This is partly the reason why no single set of comprehensive reform measures can realistically be developed that can address all the problems for the entire service organization sector in China. Given this reality, the central government has been approaching the question of service organization reform rather cautiously. In 1996, the

State Council issued an announcement entitled "The Central Personnel Establishment (*Bianzhi*) Commission's Opinions on Several Questions Regarding Service Organization Reform," which outlined the general directions for clearly delineating the respective responsibilities of state and party units vs. service organization units and for separating service organizations from the core government and party units. It emphasized the need to undertake reform according to the unique circumstances of each service organization and the need to improve the macro-management of the service organization sector. Based on these general guidelines, local governments have been given rather large latitude in determining the pace and specifics of service organization reform in their own locations given their local policy priorities, financial conditions, levels of economic development, and degrees of bureaucratic resistance (Fan, 2004).

Thus, in the rest of this paper, we adopt a bottom-up perspective by using service organizations affiliated with the Environmental Protection Bureau in the southern city of Guangzhou as a case study to illustrate problems and reform directions—focusing on how institutional choice factors have affected service organization reform in this particular location.

## Service Organizations Affiliated with the Guangzhou Environmental Protection Bureau

Although not widely recognized, service organizations play an important role in the environmental governance system in China. At the local level, the key government entity responsible for environmental protection is the environmental protection bureau

(EPB). Although each local EPB is functionally under the supervision of the EPB at a higher level (i.e., a municipal EPB is functionally supervised by a provincial EPB), the head of each local EPB is appointed by the head of the local government (say, the mayor) and the bureau is financed by the local government. City and county governments in most jurisdictions have increased their funding to the EPB in the past decade, but funding has been far below the level needed to fully support all its activities, which range from overseeing environmental impact assessment and pollution monitoring to pollutant fee collection and environmental education. Nationwide civil service reforms in China since the early 1990s, as mentioned earlier, also demanded a reduction in staff establishment (*bianzhi*) in administrative agencies, which has further limited the bureau's ability to perform its duties. Indeed, after several rounds of bureaucratic restructuring and streamlining in the past decade (Burns, 2003; Brodsgaard, 2002), the Gaungzhou EPB (GEPB) has its staff establishment cut down from over 70 to around only 45.

One might be puzzled by how a bureau with only 45 established staff positions could serve the environmental protection need of a city approaching a population of 12 million. Like many other administrative agencies in China, the GEPB has responded to these financial and personnel challenges by assigning many of their major responsibilities to service organizations (Lo et al., 2001; Lam and Perry, 2001). There are at least eleven service organizations affiliated with the GEPB, together employing over several hundred employees. These service organizations differ from each other in terms of the transactions and services they handle, their personnel policy, revenue sources, management systems, and degrees of autonomy from their sponsoring government units.

As shown in Table 1, there are different options representing varying degrees of connection to the core GEPB. At one end of the spectrum is a service organization that is fully government funded and staffed by employees with civil service status, and the other extreme is an enterprise organization financially and operationally independent from the GEPB. In between the two ends, there are several different options including service organizations that have partial or no government funding, and state enterprises that are financially independent and required to pay income taxes.

## Explaining Diversities in Organizational Forms: An Institutional Choice Perspective

How can the diversities among these organizations be explained? Specifically, what accounts for the choice of their initial organizational forms, and the directions for reform in the near future? To answer these questions, we adopt an institutional choice perspective, exploring the factors that are likely to lead the GEPB leadership to favor varying organizational forms for their affiliated service organizations. In this regard, two branches of the institutional choice literature are most relevant—the government contracting literature and the politics of structural choice literature. In this section, we develop a theoretical framework that draws on concepts from these two branches of the literature. The purpose is to sketch the main elements of the framework and highlight their connections to the extant literature. Detailed arguments will be developed later when the framework is applied to study the reform of GEPB affiliated service organizations.

Inspired by transaction cost economics (Williamson 1984), the government contracting literature examines how governments choose alternative service production arrangements—internal production, external production through contracting with business or nonprofit organizations, subsidies, franchises, tax incentives, etc. Much of this literature focuses on how transaction costs or risks—arising from conditions of incomplete information and uncertainly during the contractual process—affect these alternative production choices (Brown and Potoski, 2003; Ferris and Graddy, 1993; Stein 1990). Different factors have been hypothesized and shown to influence transaction costs and government service production decisions.

As argued by Brown and Potoski (2003), two factors are most relevant—one pertaining to the characteristics of the service itself and the other pertaining to market conditions. With respect to service characteristics, asset specificity and service measurability are most commonly cited and found to be relevant factors—specifically, internal service production is preferred over alternative production arrangements as asset specificity of a service increases and as service measurability decreases (Brown and Potoski 2003; Williamson 1985). In the context of our case study of environmental service organizations in Guangzhou, service measurability problems come into play mostly in the form of probity problems arising from some organizations exercising public authority while engaging in profit-making activities. With respect to asset specificity, the problem in our case has less to do with the investment of specific physical and financial resources (since these organizations usually don't require extensive investment of such assets), but more to do with whether the service provided by a service organization is deemed essential to the operation of the sponsoring government agency, and whether

high costs of service disruptions are involved. We hypothesize that in the context of our case:

1. Service organizations that exercise public authority are likely to have closer operational, personnel, and financial ties to the sponsoring government agency than those that don't exercise pubic authority.
2. Service organizations that provide services deemed to be essential to the sponsoring government agency and involve high costs of service disruptions are likely to have closer operational, personnel, and financial ties to the sponsoring government agency than those deemed less essential.

With respect to market conditions, the presence of a competitive market—i.e., many potential vendors available for hire—help reduce transaction costs and promote contracting efficiencies. Competitive market conditions are more likely to be present in large and densely populated metropolitan areas with large numbers of governments, private and nonprofit organizations as potential service production vendors. As such, governments in large and densely populated metropolitan areas are more likely to contract service production than those in non-metropolitan areas (Brown and Potoski, 2003). In the context of our case, Guangzhou is a large metropolitan area, yet different GEPB-affiliated service organizations face different market conditions. In this regard, two aspects of market conditions are relevant. One concerns whether alternative vendors are available to produce the service. If there is a lack of alternative and reliable vendors, the GEPB has to make sure that the existing service organization is able to function properly to avoid service disruptions. Thus, our third hypothesis:

3. Service organizations with less alternative and reliable vendors are likely to maintain closer operational, personnel, and financial ties to the sponsoring government agency than those with more.

Another aspect of market conditions concerns market opportunities available for a service organization. In the context of our case, this is a critical factor affecting whether a service organization can become more autonomous from the GEPB because without an ability to generate its own revenues in the broader market, a service organization will continue to rely on the GEPB financially to survive. Thus, our fourth hypothesis:

4. Service organizations with less market opportunities are likely to maintain closer operational, personnel, and financial ties to the sponsoring government agency than those with more.

Transaction cost economics is premised on the assumption that when choosing among alternative service production arrangements, government entities strive to reduce transaction costs/risks and to increase efficiency and effectiveness. Yet another branch of the institutional choice literature—politics of structural choice and the related principal-agent theory—argue that structural choice of government agencies and alternative service production arrangements are seldom driven only by efficiency and effectiveness reasons. Instead, partisan interests of political stakeholders and principals play a key role in shaping structural choice in the public sector. Moe (1989) emphasizes the role compromises among interest groups, political parties, and legislators play in shaping structural choice in the public sector. McNollgast (1987), Macey (1992), and Horn (1995) emphasize how enacting coalitions of legislators shape administrative procedures

and statutory authorities to reduce bureaucratic drift from original legislative intents and chances of policy reversal by subsequent legislatures.

Similar political and institutional logics have been applied to study institutional choice of local government contracting and alternative organizational forms. Stein (1990), for example, supplements his transaction cost analysis of local service production choice with an analysis of how cities's historical patterns of politics affect service delivery choices. Bertelli (2006) examines how politicians' ideologies affect the choice of quasi-government organizations in the Netherlands. Tavares and Caomoes (2007) show that a number of political and institutional factors—such as the degree of financial independence of a local government from the central government, the size of the local bureaucracy, the ideological leaning of the leading local party—affect local service delivery choices.

From these studies, it is apparent that political and institutional factors are highly location specific—dependent to a large extent on features of the underlying political system. For example, since most of the literature on the politics of structural choice concerns Western, democratic systems, it naturally focuses on the role of interest groups, competing parties, and electoral and legislative politics in affecting structural choice in the public sector. When applied to the transitional context of China, however, many concepts and theories are not directly relevant as interest group and legislative politics have so far played a minimal role in public-sector structural choice. Thus we do not attempt to do a well-developed analysis of the political and institutional factors that affect service organization reform in China. Instead, we examine a number of factors that we believe are important in the context of our case:

1. policy priorities of higher-level governments;
2. the personnel establishment (*bianzhi*) system;
3. embedded social relationships between the core government agency and the service organizations;
4. developments of the market economy; and
5. developments of civil society.

As shown in Figure 1 and elaborated later in the paper, these political and institutional factors affect options for service organization reform directly and indirectly through their influence on transaction cost factors. As such, this framework enables us to make sense of how leadership in GEPB may decide on how each service organization contributes to its core mission, and what the best organizational form is for each in terms of its operational, personnel, and financial connections to the GEPB.

## Reforming GEPB-affiliated Service Organizations

The data for our analysis are derived mostly from the interviews we conducted with several leading officials (including two deputy chiefs) in the GEPB and the director (or deputy director) of each of its eleven service organizations between November 2006 and February 2007. These interviews where arranged with the assistance by the Gruangzhou Research Institute of Environmental Protection Science (GRIEPS), with which we have had research collaboration since the early 1990s. In each interview, lasting about ninety minutes, we asked the official about the history of the organization, its organizational and management structures, personnel arrangements, main financial

sources, major activities, relationships with the GEPB and other environmental protection organizations, and directions for reform. Based on these interviews, we assessed each organization with respect to four questions—(1) whether it exercises public authority; (2) whether it provides essential services from the perspective of the GEPB; (3) whether there are alternative providers of its services; (4) whether there are market opportunities for the types of services it provides—corresponding to the four transaction cost related hypotheses mentioned earlier. Table 2 summaries our qualitative assessment of the eleven organizations with respect to these four questions, and their current status and reform direction. Admittedly, our qualitative assessment, in terms of "yes" or "no", can be regarded at best as rough estimates, because some categories such as market opportunities could be set up on an ordinal scale. Yet, because we don't seek to undertake any statistical test, rough estimates can serve the useful purpose of identifying more easily an overall pattern.

As shown in Table 2, the more an organization represents a "yes" to all four questions, the more closely it is tied to the parent GEPB in terms of operation, finance, and personnel. Whereas those that represent a "no" to all four questions, they are likely to be autonomous from the parent GEPB in terms of operation, finance, and personnel. For those representing a mix of "yes" and "no", they exhibit a variety of operational, financial, and personnel connections to the GEPB. These results are consistent with the four hypotheses discussed in the preceding section.

While the four transaction cost related factors provide a way for understanding the array of existing arrangements and direction for reform, it is by itself far from being deterministic; the ultimate reform trajectory is conditioned by a number of political and

institutional factors. In the rest of this paper, we examine in details these transaction cost and political and institutional factors.

## Whether the Service Organization Exercises Public Authority

Williamson's examination of probity issues in relation to "sovereign transactions" provides a useful starting point for our analysis. In contrast to Moe's (1989) argument that government bureaucracies are mostly a result of political compromises and often designed to fail, Williamson argues that efficiency reasoning may apply in the sense that public bureaucracy is "the best feasible response" (1999, p. 310) for certain types of transactions, of which "sovereign transactions" (Wilson, 1989) is a prominent example. Sovereign transactions, as in foreign affairs, create "hazards of probity", referring to the difficulties for the political executive to ensure that such transactions are handled with loyalty and rectitude by the assigned agents. On this count, public bureaucracy—characterized by appointed chief executives, career and professional staff, secured government funding, clear hierarchical structures, clearly prescribed duties and rules—are likely to be superior in maintaining probity than other alternatives like full privatization or long-term incomplete contracts based on cost-plus reimbursement.

Williamson's probity argument may apply to many transactions in which the exercise of public authority is involved. As explained by James Q. Wilson (1999), "there are certain tasks that we expect government to perform, not because government is cheaper or more efficient, but because it alone embodies the public authority" (p. 359). Two lines of reasoning are relevant here. One involves the concept of legitimacy, i.e.,

who is believed to have the "legitimate" authority to handle some types of "sovereign" transactions, such as determining who has violated a certain government regulation, imposing fines on violators, imprisoning law breakers, etc. The other involves accountability, referring to the opportunities for corrupt and abusive behaviors by those who exercise public authority, and the need to have institutional safeguards against those behaviors. On both counts, government bureaucracies are the preferred agents than other organizational types.

Coincidentally, these issues of probity and accountability in connection with the exercise of public authority have often been cited as key considerations in discussions about service organization reform in China. As noted by a senior EPB official we interviewed, separating core administrative agencies from non-regulatory and profit-making activities represents political and social progress. Under the old socialist system, the cadres in both government and state-owned enterprises all exercised some form of public authority. Through their public authority, government and enterprise employees could easily create opportunities for personal gains. A key aim of administrative reform in the past decade and a half has been to define clearly who should be empowered to exercise public authority so that a clearer accountability system can be established. A series of reforms have been undertaken along this direction—for example, separating the party from the state, and separating the state from enterprises (Chan and Li, 2007).

Efforts now are focused on separating administrative units that exercise public authority from those that provide supportive services and those that engage in direct profit-making activities. The reform direction is to allow only organizations with public authority to retain employees who are paid on and restricted by full civil service terms—

that is, developing a stable and clear compensation and bonus system that is not tied to other money making ventures. Such a reform direction is compatible with Williamson's, ala Weber's, argument that the low-powered incentives of stable and salarized employment "deter unwanted enterprise and zeal" (1999, p.325) that may result in the misuse of public authority.

Currently, there are two service organizations affiliated with the GEPB that are directly involved in the exercise of public authority—the Enforcement Team and Solid Waste Management Center. Formerly the Environmental Supervision and Management Institute, the Enforcement Team (*Zhifa Dadui*) was established in 1981 originally to collect pollution discharge fees. Its responsibilities were later expanded to include checking enterprises' progress in meeting emission standards, inspecting enterprises' pollution treatment facilities, enforcing the 'three-synchronizations' requirements in environmental impact assessment, running the pollutant discharge permit system, and managing the pollutants registration system. In recent years, its responsibilities were further extended to cover emergency mobilization and citizen participation. Currently, it has a staff establishment of 55, and over 100 other contract workers.

Among all the service organizations affiliated with GEPB, the Enforcement Team has the most extensive public authority. The Enforcement Team has always been fully funded by the EPB and prohibited from engaging in income-earning activities. Yet the status of its staff has undergone a number of changes since its establishment. Initially its staff had a non-civil servant status. This status was changed to that of "managed according to the civil servant system" (*cengzhao gongwuyuan guangli*) in 1995 when the EPB was upgraded from the rank of an office to a bureau. Under this system, personnel

salary and benefits were set according to civil service scales, but the staff did not have full civil servant status. In 2004, the core staff in the Enforcement Team finally acquired full civil servant status. Currently, the Team is supervised by a deputy director of the GEPB. Yet as explained by a key official of the Enforcement Team, not all enforcement units in other localities in the country have the same status; in some other provinces, the staff in local enforcement units still lack civil servant status.

Having full civil servant status helps address the probity issue in relation to the exercise of public authority. Yet, as argued by Williamson, the civil service pay system provides only low-powered incentives. In the context of contemporary China, the problem is compounded by the limited amount of financial and personnel resources available for the Enforcement Team to carry out its duties. For example, current regulations require monthly monitoring of around 150 major polluting enterprises, but with the existing number of personnel, they have been able to do so only once a year (source: Cheng). These, together with a lack of strong legislative and societal oversight, create incentives for enforcement slack and probably corruption (references).

When asked about the general direction of reform, the answer from a leader of the Enforcement Team was that it would in the long run be integrated into the core EPB. Such a change would be welcomed by most staff at the Enforcement Team, because that would ensure more secure and probably higher levels of government funding, and individual employees would also benefit as the civil service status usually comes with additional job security and benefits such as special retirement arrangements.

The Guangzhou Solid Waste Management Center is another service organization that exercises public authority. Established with approval by the Municipal *Bianzhi*

Commission in December 1997, the Center specializes in regulating and monitoring the creation, collection, transportation, and disposal of solid waste and other dangerous wastes such as those with chemical, medical, and radioactive components. More recently, it was responsible for arranging the construction and monitoring of industrial waste disposal sites. It is a relatively small organization, starting with only 6 established staff positions at the time of its founding, which has subsequently been increased to 20. In 2004, it was upgraded to a service organization managed according to civil service terms. Its operation is fully and directly funded by the municipal finance bureau (with budgets approved by the GEPB). Its director and deputy director are appointed by the GEPB, and the Center is supervised by a deputy GEPB director.

The Solid Waste Management Center is another example of how probity concerns figure in the choice of organizational form and managerial system. In addition to exercising public authority, the Center is responsible for handling matters that have large-scale public security consequences, as in the case of nuclear waste management. Instituting profit-making motives among employees in the Center may easily compromise its accountability to the public interest. Given the greater job security and fringe benefits available with the civil service system, employees in the Center also prefer it to be fully integrated as an administrative unit within the core GEPB.

### Whether the Organization Provides Essential Services

There appears to be strong consensus that existing service organizations with explicit public authority ultimately belong to the core civil service system. Due to

constraints imposed by the *bianzhi* system, these service organizations may be prevented from being integrated into the core government bureaucracy, yet they are managed according to civil service rules, and their professional employees enjoy civil service status and benefits. For those service organizations that have no direct role in exercising public authority, the next key question is whether the organization provides essential services, i.e., those considered by the EPB as a critical part of its key mission. If so, the EPB is likely to maintain relatively close financial and administrative ties to that organization to ensure reliable services.

One way to assess whether a service is essential is to use Dryzek's (1996) notion of "state imperatives", referring to what government leaders believe they must do to maintain the regime's survival and legitimacy. Another related concept is "critical tasks." As defined by James Q. Wilson (1989, p. 25), critical tasks refer to "those behaviors which, if successfully performed by key organizational members, would enable the organization to manage its critical environmental problem."

In the context of environmental management in China, the essential tasks of a local EPB include the enforcement of major pollution regulations and collection of basic environmental condition data. More recently, prevention of major environmental pollution incidences has also become a high priority for local EPBs in many parts of the country, especially in regions where the public have become more intolerant of major pollution incidences, and higher-level governments have become increasingly concerned about potential social unrests triggered by high-profile pollution incidences.

Thus, as a result of changing circumstances, the essential tasks of an EPB may change. One example concerns the Monitoring Stations, which were established in 1974.

The Environmental Monitoring Stations are responsible for (1) monitoring the city's environmental quality and (2) gathering environmental data on behalf of the EPB and the municipal government for environmental planning and environmental impact assessment. In their early years, the Monitoring Stations received minimal financial support from the GEPB and their workload was relatively light. Since the early 1990s, as the provincial governments, the media, and the municipal leadership began to pay more attention to serious environmental incidents and citizen complaints against pollution. The leadership at the GEPB has increasingly recognized the value of the Monitoring Stations because it has to rely on them to provide reliable data on enterprise pollution to facilitate regulatory enforcement. In addition, its external constituencies—provincial and municipal government leaders, the local legislature, and the public—are paying increasing attention to various environmental problems. To ensure support from these various constituencies, the GEPB needs a reliable agent for monitoring environmental indicators to avoid negative political fallout. An example cited by a leading official of the Monitoring Stations concerns a recent campaign initiated by the Provincial Government to clean up the Pearl River. A part of the campaign was to organize a swimming event in the river to showcase the cleanup effort. The Monitoring Stations were assigned the critical task of monitoring the river's water quality during this period.

As explained by the officials we interviewed, because of the frequent occurrence of serious environmental accidents in recent years and the resulting political fallouts, the GEPB and municipal government have been providing increasing amounts of financial resources to the Monitoring Stations, currently providing around 90 percent of the annual budget. Employees in the Monitoring Stations currently do not possess civil service

status, like those in the Enforcement Team and Solid Waste Management Center. Yet unlike these two organizations, the Monitoring Stations are allowed to generate some of their own incomes by collecting emission data for industrial plants under the pollutant discharge fee system. To increase their discretionary resources for such things as better facilities and additional staff bonuses, monitoring stations can also provide services to outside constituencies/enterprises for collecting and verifying their pollution data. They can serve clients outside Guangzhou by providing consulting services to enterprises regarding pollution control. In these cases, all the incomes from such services must be submitted to the finance bureau of the municipal government, but it may keep 35 percent (50 percent in the past), following budgetary guidelines of the "two separate lines for revenues and expenses" system.

Employees in the Monitoring Stations prefer to see the Stations become an administrative organization (*xingzheng danwei*) and their employment status converted to civil servant terms to ensure even more secure funding and better retirement benefits. In a number of localities, mostly the more economically developed ones like Zhuhai, the district-level monitoring stations have already attained administrative organization status. Yet large numbers of monitoring stations in less developed localities are still struggling for survival; many of them are poorly equipped and funded, and their employees poorly remunerated—probably reflecting the fact that the work of the monitoring stations is considered less "essential" in the those locations. This diversity in organizational status probably reflects the fact that different EPBs and municipal governments see what is essential for their environmental management differently. A service organization that is considered essential in one location may not be considered so in another location.

### Whether There Are Alternative Providers

Even if an organization provides an essential service for the EPB, it is not indispensable if alternative and reliable providers are easily available. Two considerations are relevant in this regard. One is whether several qualified providers are available as contractors to provide the service, and the other is, given the nature of the work, whether it is easy to arrange a reliable outside, autonomous agent to do the job.

The first consideration relates to a common argument in the contracting literature, which points to the difficulties faced by some local governments in the U.S., especially those in areas far away from large metropolitan centers, when trying to find private and nonprofit organizations interested in (and capable of) contracting with them to provide various types of government-funded social services. In this situation, the local governments would have no choice but to deliver the services themselves using their own agencies (Romzek and Johnston). Or, even in major metropolitan areas, depending on the types of services in question, government agencies may have to take initiatives to either persuade nonprofit/business organizations to respond to their RFPs or in some cases offer them specific technical and financial support to help them become viable service contractors (Kramer and Grossman, 1987).

The second consideration relates to whether "reliable" third-party agents can be arranged. This brings us back to the probity issue raised by Williamson in connection to the discussion about sovereign transactions. When an assignment involves missions that are ill-defined or politically sensitive, it requires high degrees of responsiveness from the

agent in carrying out the assignment. In this regard, an agency chief who serves at the pleasure of the political principal tends to be more responsive to "the perceived needs of the political leadership" (Williamson, p. 325) than someone who can maintain an arms-length relationship from the political principal.

In the context of Guangzhou, these considerations apply to a number of service organizations. One example is the Monitoring Stations, which performs an essential service for the GEPB. As explained by their leading officials, although a few private certified agents are available for providing monitoring services, they are generally considered as being of low quality. In addition, some of the collected data are considered as confidential government data. These considerations make it difficult for the EPB to replace the Monitoring Stations by an outsider agent for collecting crucial environmental data. Yet due to the fact that they are not directly involved in the exercise of public authority, they are allowed to supplement their incomes by providing paid services to other entities.

Another example is the Environmental Publicity and Education Center (EPEC), which is responsible for publicizing official environmental protection messages, promoting environmental education, and organizing public participation in environmental protection activities. From the perspective of the GEPB leadership, EPEC performs an essential function for the bureau because in the city there is an absence of any non-government organizations that perform these types of publicity and education functions. In our interviews with high ranking EPB officials, they have expressed considerable reluctance to support any civic environmental NGOs that may be involved in these types of activities, and recently they have also felt the public opinion pressure generated by

some critical newspaper reports about several local environmental incidents. The GEPB leadership has been reliant on the EPEC as a publicity and public relations agent. As a result, the EPEC has maintained full financial support from the GEPB.

## Whether There Are Market Opportunities

The analysis so far indicates that a service organization is likely to have closer financial and operational ties to the EPB if it exercises public authority, if it provides an essential service, and there are no viable and reliable alternative providers. Those lacking these features are the prime candidates for becoming more autonomous from the EPB. The remaining key consideration is what kinds of market (commercial) opportunities are available for the organization, which would affect the specific status of the organization, say, whether it can be transformed into an enterprise organization that is totally autonomous from the EPB.

One example concerns the Guangzhou Research Institute of Environmental Protection Science GRIEPS, which has secured market opportunities, but partly as a result of its affiliation with GEPB. GRIEPS was established in 1977 to provide research support to the environmental protection agency. It has a staff establishment of 100. The director of GRIEPS is appointed by the EPB chief for a three-year term and is fully in charge of the institute. Since its establishment, GRIEPS has taken up a number of specific tasks, including the preparation of environmental impact assessment reports for development projects, the provision of environmental planning services for government authorities, and the provision of ISO14001 certification preparation services for industrial

enterprises. As the GRIEPS charges fees for performing these tasks, they have become its major income source. In principle, this type of service organizations can more or less define their own work agenda, but they cannot use the EPB's authority to advance their own interests. They are also supposed to compete equally with other organizations when bidding on projects overseen by the EPB. According to the officials interviewed, the long-term direction is to turn these service organizations into fully for-profit enterprises, entirely independent from any government entities.

In recent years, the GRIEPS's research and policy support for the EPB has been decreasing, mostly because of its preoccupation with income-generating activities. Increasingly, less and less specific tasks are being assigned by the EPB, and the GRIEPS is almost free to develop its annual operating plans. After three consecutive years of progressive cut in funding, the GRIEPS has stopped receiving any direct financial support from the EPB since 2002 and has begun to earn its own incomes by operating on commercial principles. Under the official plan of marketizing all municipal-level research institutions in Guangzhou, the GRIEPS will ultimately become an independent enterprise unit (*qiyi danwei*) with its employees as shareholders.

Another example is Yidi Environmental Protection Company (YidiEPC), which was set up in 1992 as an enterprise organization under the aegis of the then GEPB chief. Its key mission is to support environmental impact assessment (EIA) by providing consulting services to projects and developers subject to the EIA requirement. Since its inception in 1992, YidiEPC has been financially and operationally autonomous from the GEPB, with the latter's key influence restricted to the appointment of its general manager. With no specific assignments from the GEPB, YidiEPC provides paid

environmental consulting services to clients both inside and outside Guangzhou. Despite its independent financial strength, leading officials at YidiEPC have expressed a strong desire to maintain its affiliation with the GEPB because such an affiliation gives them a competitive edge in the highly competitive EIA consultancy market.

Guangzhou Academy of Environmental Protection Technology Design Company Limtied (GAEPTDCoLtd) is another formerly service organization that has been converted into a full-fledged enterprise unit. It is a classic case of a service organization that represents a "no" to all four transaction cost-related questions of exercising public authority, performing essential functions, having limited alternative providers, and having limited market opportunities. Originally set up as part of the EIA system to help polluting enterprises to design pollutant treatment facilities, the Academy has gradually gained market shares in the expanding pollutant treatment market. In order to expand its operational scale, the Academy has traded less financial support from the GEPB for more operational and personnel autonomy, resulting in its final conversion into an independent share-holding enterprise. Such a conversion has enabled the Academy to expand its business beyond Guangzhou and to increase its income from RMB 10 million to RMB 90 million in 2006, four years after conversion.

## How Various Political and Institutional Factors Shape Reform Options

As shown in Table 2, answers to the preceding four transaction cost questions can help explain the current organizational forms and reform directions for the eleven organizations affiliated with GEPB. At one end, represented by the Enforcement Team

and Solid Waste Management Center, are service organizations that simultaneously exercise public authority, provide essential services, have limited alternative providers, and have limited market opportunities. These organizations have the least financial, operational, and personnel autonomy from the parent EPB, and are candidates for being folded into the core government bureaucracy. At the other end, represented by the Yidi Environmental Protection Company and the Academy, are those that exercise no public authority, provide non-essential services, have alternative providers, and have apple market opportunities. They possess the most financial, operational, and personnel autonomy from the parent EPB, with the former having been converted into a state enterprise, and the latter into an enterprise unit. In between the two extremes, several organizations vary in terms of their levels of operational, financial, and personnel autonomy.

*Among the four factors, it appears that whether an organization exercises public authority is the key determinate—if it does, it bounds to have less autonomy from the parent EPB and in the long run be slated to be folded back into it. Although not a logical necessity, it is also likely that those exercising public authority tend to be providing essential services, have no alternative providers, and have limited market opportunities. Arguably, regardless of these other factors, if an organization exercises public authority, it ought to be closely tied to the parent EPB or be folded into it.*

*The next important factor is whether the organization is deemed to be performing essential functions. If so, even if it does not exercise public authority, it will likely be maintaining some operational and financial ties to the parent EPBs, and such ties tend to be stronger if there are no alternative providers and it has limited market opportunities.*

*Finally for those not exercising public authority and not performing essential functions, the logical choice is relatively clear—that is, as soon as it becomes financially viable, it should be converted into autonomous enterprise units or private, non-enterprise units..*

Although these transaction cost considerations provide a way for understanding the diversity of organizational forms among these service organizations, their effect is far from being deterministic. A number of political and institutional factors also affect reform trajectories.

First, service organization reform is ultimately conditioned by the policy directives from the central and provincial governments, to which all local governments are accountable. In the past few years, a number of central and provincial directives have been issued regarding service organization reform. Yet no specific timetable has been set. In our interviews with leading officials in GEPB, a frequently expressed opinion has been that all service organizations should ultimately be either folded back into the core government bureaucracy or be developed into autonomous enterprise units or civic (nonprofit) organizations, but the process will take years to complete.

Although service organization reform has been widely recognized as needed by government officials at all levels, it appears not to be on the most urgent list of the central government's reform agenda because of the issue's inherent complexities. As mentioned earlier in this paper, problems with service organizations vary widely across different policy arenas, and it is inherently difficult for the central and provincial governments to issue any sweeping reform measures that are appropriate for all service organizations alike. The strategy so far has been to set up general guidelines and allow local governments to determine specific steps and paces of reform.

Second, any major reform efforts will inevitably be constrained by the existing *bianzhi* (personnel establishment) system. For example, it has been a policy of the central government to limit the number of government employees that could be part of the *bianzhi* system. This will ultimately affect how many and what service organizations can be folded back into the core government bureaucracy regardless whether they exercise public authority and perform essential functions for the GEPB. Essentially, each local authority needs to determine by itself how to allocate its limited number of *bianzhi* positions, thus limiting the options for service organization reform.

Third, as argued by Granovetter (1985), one of the shortcomings of Williamson's transaction cost logic is its neglect of the embedded social relationships within and across hierarchies. Embedded social relationships appear to have played a key role in affecting operations and reform directions of many service organizations. For example, as indicated by some of our interviewees, even though GRIEPS is slated to eventually become a totally autonomous enterprise unit, it is unlikely that GRIEPS will be entirely autonomous from the GEPB, and some informal ties will still exist in the future. Part of the reason is that GRIEPS will likely be benefiting from an informal association with the GEPB. For example, although the GRIEPS is only one of many organizations that are qualified to prepare environmental impact assessment (EIA) reports for development projects, it has received a majority of the contracts for the job mostly due to its widely recognized ties to the GEPB. Indeed GRIEPS has relied on these contracts as a major source of its income. This raises doubts about the impartiality of the process since EIA reports prepared by GRIEPS are seldom turned down by the EPB. Yet it is precisely this kind of informal linkage that makes service organization reform a complicated issue.

On other hand, the GEPB also benefits informally from maintaining an association with many of its service organizations, not just as a possible dumping ground for its surplus personnel, but also as sources of special talents. Due to its more flexible personnel policies, some GEPB-affiliated service organizations have been able to recruit staff members with higher academic qualifications and better technical training, and they sometimes can be recruited back into GEPB to fill senior positions left open by retirements. In some cases, the GEPB may face staff shortages as a result of *bianzhi* reductions mandated by higher-level governments. There were cases in which staff members from a service organization such as GRIEP were seconded to the bureau for an extended period of time while their salaries continued to be paid by the service organization.

Fourth, the development of service organization reform will inevitably be affected by the future development of the market economy. For example, whether a service organization can become fully financially autonomous depends on whether market opportunities exist, and the availability of such opportunities depend on how well the market for environmental services is developed. For example, if environmental consulting and technical services continue to be dominated by large service organizations affiliated with EPBs in big cities, it would be difficult for small service organizations in smaller jurisdictions to become financially viable enterprise units.

Lastly, in many Western countries, civic nonprofit organizations can provide key environmental services such as education and research, and be supported financially by a combination of fees for service, membership fees, voluntary donation, and foundation and government grants (Salamon). In the context of China, many of these financial

sources, such as voluntary donation, membership fees, and foundation grants, are still not widely available. This will limit the extent to which service organizations can ultimately be turned into financially viable private, non-enterprise organizations. That is also the reason why we have not seen an example of any of the eleven service organizations being turned into private, non-enterprise units.

## Conclusion

We have shown how transaction cost considerations, in combination with several political and institutional factors, have affected service organization reform in the environmental management arena in Guangzhou. This framework may not apply to service organization reform in all other arenas, yet it lays the groundwork for future research. More work, for example, is needed to examine in details how different configurations of institutional choice logics may interact in presenting different reform options. More research is also needed to understand how different contextual variables may affect the process and direction of reform in different service arenas.

Our analysis demonstrates the utility of applying key institutional choice concepts in studying governance reform in a transitional context, despite the fact that most institutional choice concepts were developed initially to study issues in the U.S. We were indeed quite surprised in many incidences while interviewing Chinese officials about their views concerning service organization reform. For example, although they may not be using the same terminology, probity and legitimacy concerns associated with the use

of public authority were mentioned by some of our interviewees as key rationales for reforming service organizations in China.

Our case also provides an opportunity for putting into perspective a long-time contention in the institutional choice literature. One end of the contention is exemplified by Williamson's implicitly functional perspective suggesting that organizational forms, in both public and private sectors, are adopted for efficiency/effectiveness reasons—that is, minimizing transaction costs in the private sector, and minimizing probity concerns in the public sector. This view contrasts with the "politics of structural choice" perspective by Moe (1989) and others (Horn 1995; McNollgast, 1987) who argue that organizational forms in the public sector are mostly results of political conflicts and compromises, and thus are often designed to be inefficient and ineffective from the outset. Our analysis illustrates the utility of combining both perspectives by highlighting the role of transaction cost logics in guiding the general direction of reform, yet also showing how various political and contextual factors may affect actual reform trajectories.

Service organization reform is a complicated and long-term issue in China. Sorting out various reform options will be a major political economy problem in China for years to come. Key concepts from the institutional choice analysis literature will be useful for understanding and guiding such reform efforts. We hope that our case analysis will prove useful for helping to develop a framework for analyzing governance reform options in China.

An institutional choice analysis of service organization reform in China also contributes to the growing literature on collaborative governance, which emphasizes how organizations from multiple sectors may cooperate and network with each other to solve

public problems and to provide services (O'Leary 2007; Heinrich, Hill, and Lynn 2000). The case of China provides an opportunity for understanding a rich diversity of alternative organizational forms that may be involved in public service delivery, and how key institutional choice issues such as probity, accountability, legitimacy, and market opportunities figure in the choice of alternative organizational forms. The case also illustrates how larger political and institutional variables such as central-local relations, policy priorities, embedded social relationships, and developments of the market economy and civil society affect the network of organizations involved in a service arena.

**Table 1: Different Institutional Forms**

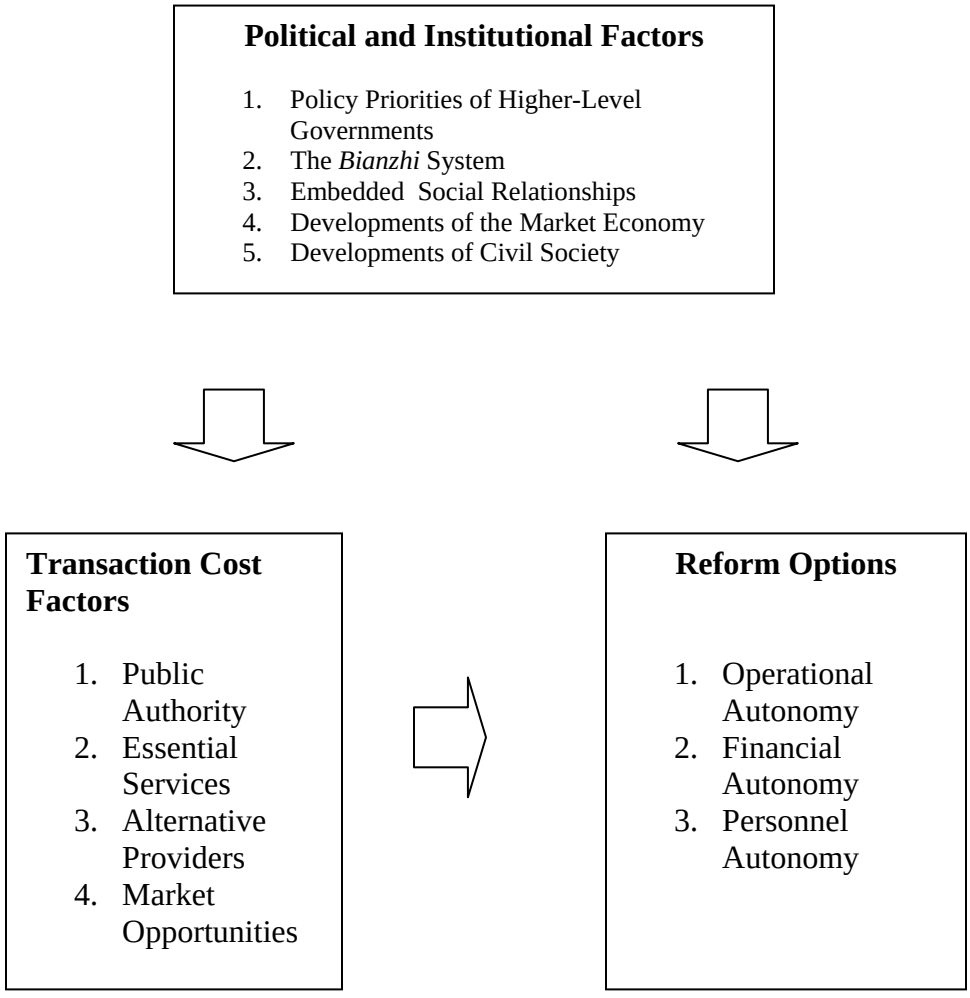
| Institutional Forms | Personnel Policy | Financial Sources | Taxation Policy | Management Systems | Example |
|---|---|---|---|---|---|
| Core Gov't Agencies | Gov't Bianzhi | Entirely Gov't Funded | | Civil service, government bureaucracy | |
| Core Service Org. (fully gov't funded; civil service status equivalent;) | Gov't Bianzhi | Entirely Gov't Funded; project fundings | | Directly supervised by an EPB deputy director; with enforcement power; lack of autonomy in personnel management and staffing | Enforcement Team |
| Service Org. Type 1 (fully gov't funded) | Gov't Bianzhi + limited no. of contract staff attached to specific project(s) | Entirely Gov't Funded; project funding | | Directly supervised by an EPB deputy director; limited autonomy in personnel management and staffing | Environ. Information Center |
| Service Org. Type 2 (partially gov't funded) | Gov't Bianzhi + contract staff supported by the provision of paid services | Partly Gov't Funded + income earned by the provision of paid services | Income earned needs to pay tax | Directly supervised by an EPB deputy director; a higher degree of autonomy in personnel management and staffing, particularly related to the group of non-bianzhi staff | Monitoring Station |
| Service Org. Type 3 (no gov't funding) | No Gov't Bianzhi | Basically Self-Generated Funding; project funding from GEPB | Income earned needs to pay tax | Directly supervised by an EPB deputy director; loose reporting system, very high degree of autonomy in personnel management and staffing (enterprise management) | Research Institute |
| State Enterprises | Gov't Bianzhi | All Self-Generated | Pay a fee to a state asset management company appointed by the State Asset Commission | Directly supervised by an EPB deputy director; enterprise management; limited reporting system, virtually a full autonomy in personnel management and staffing | Yidi Envir |
| Enterprise Units | No Gov't Bianzhi | | | | Academy |
| Civic Organizations | | | | | None |

## Table 2: Institutional Choice Calculus

| | Exercises Public Authority | Essential Services | Limited Alternative Providers | Limited Market Opportunities | Current Status and Reform Direction |
|---|---|---|---|---|---|
| Enforcement Team | Yes | Yes | Yes | Yes | Service organization managed according to civil service terms; fully funded by GEPB; employees enjoy civil servant status; prefer to be fully integrated as part of the core EPB; with enforcement power |
| Solid Waste Management Center | Yes | Yes | Yes | Yes | Service organization managed according to civil service terms; Typical service organization; entirely funded by GEPB; employees prefer to be a full administrative unit; with enforcement power |
| Monitoring Station | No | Yes | Yes | No | Typical service organization; 90% funded by GEPB; 10% from market activities; employees have no civil servant status; prefer to be fully integrated as part of the EPB, but satisfied with current status |
| Environ. Information Center | No | Yes | Yes | Yes | Typical service organization; entirely funded by GEPB; with specific duties from GEPB |
| Env. Publicity and Education Centre | No | Yes | Yes | Yes | Typical service organization; entirely funded by GEPB; with specific duties from GEPB |
| Environ. Governance Investment Center | No | Yes | Yes | Yes | Typical service organization; entirely funded by GEPB; supervised by a EPB deputy director; no specific duties from GEPB but to support environmental policies of GEPB in their operations |
| Research Institute | No | No | Yes | No | Service organization managed as an enterprise unit; partly funded through Municipal Science Commission; increasingly self-funded by income-generating activities; reluctant to convert to enterprise unit |
| Environ. Protection Industry Association | No | No | Yes | No | Service Organization; Mostly self-funded through membership fees and some income-generating activities; occasional subsidies by the GEPB; possibility in turning into a civic association; no specific duties from GEPB but to support environmental policies of GEPB |
| Environ. Technology and Equipment Company | No | No | No | No | Service Organization managed as an enterprise unit; A spin-off from Monitoring; Mostly self-funded by income-generating activities; prefers to state as an service organization (if turned into a state enterprise, will have to submit management fee to state asset management company); in the long turn, may have to turn into either a state enterprise or share-holder company |
| Yidi Env. Protection Company | No | No | No | No | State Enterprise; Under Guangzhou State Asset Commission; major works include EIA and environmental engineering; a profit-making organization |
| Academy | No | No | No | No | Converted to enterprise unit in 2003; fully financial independence since 1999; expanding markets; still benefiting from associating with GEPB, but benefits have been diminishing due to expanded markets in other cities |

**Figure 1**

**A Framework for Analyzing Service Organization Reform in China**



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