

# Marketization and Its Discontents: Unveiling the Impacts of Foundation-led Venture Philanthropy on Grassroots NGOs in China

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## Abstract

Although the Chinese state has an outsized influence on shaping civil society in China, extant literature has generally overlooked the increasing role of the market in its non-governmental organization (NGO) development. This paper examines the marketization of Chinese civil society through an ethnographic investigation of funding relationships between domestic Chinese philanthropic foundations and grassroots NGOs. Two case studies of foundation venture philanthropy projects show that businesspeople, through their intensive involvement in foundation-led funding programmes, are introducing strong market influences to the non-profit sector. Notwithstanding the attraction of foundation funding, many NGOs decry the negative side effects of non-profit marketization. We argue that NGOs in this context risk being transformed into social product providers and resource-chasing machines, detracting from the self-directed social missions that many NGO leaders see as their original calling. These observations on emergent NGO–foundation relationships also reflect participants' increasing uncertainty about the direction of Chinese civil society development.

**Keywords:** NGOs; foundations; venture philanthropy; marketization; civil society; China

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As an essential part of its overall transformation since economic reforms began in the 1980s, the re-emergence and rapid growth of China's non-profit sector has gained much academic attention in the last decades. Against the backdrop of the 1989 democracy movement, the initial focus of scholarly efforts was to examine how much autonomy Chinese non-governmental organizations (NGOs) enjoy from the state and whether NGO development would bring political democratization to the authoritarian state. Since then, the analytical framework of

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state–society relations has dominated the field of Chinese NGO studies. Initially, the theoretical debate between civil society and corporatism formed the main line of scholarly investigation.<sup>1</sup> Researchers then turned to examine strategies employed by NGOs and the state in their dealings with each other.<sup>2</sup> Despite the rise of other issues in recent years, much of the latest scholarship still revolves around state–NGO interactions.<sup>3</sup>

Undoubtedly, the analytical utility of state–society relations has greatly enriched Chinese NGO studies. After years of field dominance, however, the limitations of the state–society framework have become increasingly apparent. For example, Jude Howell points out that the longstanding debate around civil society and corporatism overemphasizes the role of the state in shaping the trajectory of Chinese civil society, at the expense of a full analysis of NGO dynamics in China.<sup>4</sup> Raru Salmenkari laments the “theoretical poverty” of Chinese civil society study by arguing that extant literature focuses too much on Chinese associations’ autonomy from the state while overlooking the equally important horizontal linkages among social actors.<sup>5</sup> Recognizing these problems, some studies have also attempted to broaden the scope of research by examining, for example, the roles of foreign funders in supporting Chinese grassroots NGOs,<sup>6</sup> the cohesions and fissures among Chinese civic activists,<sup>7</sup> and the interactions between Chinese NGOs and their beneficiaries.<sup>8</sup>

While recent studies have explored new areas of research in China’s NGO sector, one crucial dimension – the market – has garnered little attention. According to civil society theorists, the market constitutes an impactful outsider necessary for civil society to function and further distinguish itself.<sup>9</sup> Yet, despite appeals by both Heath Chamberlain and Jude Howell for research into the market’s impacts on Chinese civil society, few scholars have chosen to pursue empirical investigations of the issue.<sup>10</sup> Given both the breadth and depth of China’s marketization over the past 40 years, it is somewhat surprising that market forces have rarely been examined in current analyses of Chinese NGOs.

In this context of both compelling theoretical rationale and dearth of empirical studies, this paper explores the market influences on Chinese civil society through an ethnographic study of funding relationships between China’s domestic philanthropic foundations and grassroots NGOs. Foundations in China have been increasing rapidly recently.<sup>11</sup> And, owing to the expelling effects of China’s

1 For an overview of this early debate, please refer to Ding 1998.

2 Saich 2000; Foster 2002; Kang and Han 2008.

3 Spires 2011a; Teets 2013; Hasmath and Hsu 2014; Hsu and Jiang 2015; Howell 2015; Fu 2017; Peng and Wu 2018; Franceschini and Nesossi 2018.

4 Howell 2012.

5 Salmenkari 2013.

6 Spires 2011b.

7 Wu 2017; Zhou 2018.

8 Liu, Wang and Dang 2018.

9 Ferguson 1995; Kocka 2004.

10 Chamberlain 1998; Howell 2012.

11 Chan and Lai 2018.

new Overseas NGO Law on international funding, domestic foundations are expected to provide alternative support for grassroots civil society organizations.<sup>12</sup> Although Chinese foundations are constrained heavily by the state and avoid funding relationships with other NGOs in general,<sup>13</sup> data have shown that some foundations have started making grants to NGOs since the 2008 Wenchuan 汶川 earthquake.<sup>14</sup> Recent evidence also reveals that Chinese NGOs, especially those based in Beijing, have been able to secure funding from domestic foundations.<sup>15</sup> Notwithstanding the growing importance of foundation funding for grassroots NGOs, little is known about how domestic foundations might influence Chinese civil society development.

In this research, we focus on “venture philanthropy” (VP), a new foundation funding paradigm originating in the USA and recently introduced into China. By studying two cases of foundation VP programmes, this paper shows how Chinese NGOs are at risk of being co-opted by market forces through business entrepreneurs’ deep involvement in foundation funding practices, transforming groups initially formed with social change goals into social product providers and resource-chasing machines akin to commercial enterprises. Meanwhile, notwithstanding the attraction of foundation funding, many NGO leaders remain wary of the side effects of non-profit marketization and the wisdom of applying market-based models to NGO development.

The analyses presented here are based on in-depth interviews with 46 representatives from foundations and NGOs as well as participant-observation at more than ten organizational and industrial events, all of which were conducted between May 2016 and April 2017 in Beijing and Guangdong. We also draw on various forms of secondary materials including annual reports, conference memos and newspaper reports. In the following sections, we first briefly review the scholarly debates over non-profit marketization, setting the point of departure for our empirical examination. Next, we introduce the development of grant-making foundations and rise of venture philanthropy within China’s foundation sector. We continue by presenting two cases of foundation VP projects to illustrate how market influences are exerted on NGOs through foundation funding practices and how NGOs perceive such projects. Finally, we conclude with a discussion of the implications of this research.

### **Contestation over the Pros and Cons of Non-profit Marketization**

As welfare state reforms emerged as a global trend over the past decades, the marketization or commercialization of the non-profit sector has become a core topic for non-profit scholars. Research shows that the market exerts influences

12 Teets 2018.

13 Lai et al. 2015.

14 China Development Brief 2011.

15 Spires, Tao and Chan 2014.

on non-profit organizations in various ways, including government outsourcing contract competition,<sup>16</sup> growth in non-profit organization (NPO) commercial revenue<sup>17</sup> and social enterprises.<sup>18</sup> Given its massive, sector-transforming effects, non-profit marketization has been the subject of considerable scholarly debate for several decades. Concerns about the corrosive effects of market mechanisms on non-profit missions were raised from the outset.<sup>19</sup> In this vein, Lester Salamon, a towering figure of the non-profit studies field, suggested that over-commercialization could undermine public confidence and cause a legitimacy crisis to the non-profit sector as a whole.<sup>20</sup> Elaine Backman and Steven Smith together argue that the commercialization of non-profit organizations will ultimately destroy their social capital functions.<sup>21</sup> Angela Eikenberry and Jodie Kluver jointly conducted a comprehensive evaluation of the adverse impacts of non-profit marketization on civil society development and conclude that it is “too high a price to pay.”<sup>22</sup>

Contrary to such negative assessments, some scholars posit more positive effects of the non-profit marketization trend. For example, Dennis Young’s investigation of social service associations in the US asserts that non-profit organizations are able to maintain consistency between their missions and commercial activities, so that commercialization actually contributes to mission fulfilment by supplementing organizational resources.<sup>23</sup> Jun Han’s examination of Chinese registered social organizations finds a positive relationship between market practices and NGOs’ perceived policy influences.<sup>24</sup> Viewing non-profit organizations as open systems, Lioudmila Moeller and Vladislav Valentinov argue that commercialization actually serves as a self-regulatory mechanism for NPOs in hostile resource environments.<sup>25</sup> Still other scholarship argues for the beneficial effects of market practices on the autonomy, accountability and innovation of NGOs.<sup>26</sup>

Apart from these positive evaluations, an especially strong supportive argument for non-profit marketization comes from some examinations of transitional societies. Given former totalitarian contexts, marketization has been seen as a key tool for NGOs in transitional societies to gain autonomy from the public sector. For instance, Gabriela Vacakova and colleagues’ assessment of the Czech Republic indicates that its non-profit sector had to undergo a difficult process of emergence and formation as the country went through political transition, thus commercial activities actually helped the Czech non-profit sector to emancipate from the state and “develop its distinct institutional identity.”<sup>27</sup> Along

16 Smith and Lipsky 1993.

17 Weisbrod 1998.

18 Dees 1998.

19 Bush 1992.

20 Salamon 1999.

21 Backman and Smith 2000.

22 Eikenberry and Kluver 2004, 135.

23 Young 1998.

24 Han 2017.

25 Moeller and Valentinov 2012.

26 Froelich 1999; Choi 2014.

27 Vacakova, Valentinov and Nemeč 2017, 2118.

similar lines, Jianxing Yu and Kejian Chen's recent comparative analysis of non-profit marketization in China and the US argues that while it might undermine civil society in the Western context, the marketization process brings about autonomy, transparency and accountability to China's non-profit sector.<sup>28</sup>

We agree that one of the first challenges NGO development in transitional societies like China faces is control from the state and that marketization serves as a strategic option for non-profit organizations. As Yu and Chen's analysis and other scholarship have shown, market practices also benefit some NGOs in that they acquire more resources for expanding service delivery. However, we argue that the "marketization utility" has its temporal and spatial boundaries, in that market strategies function differently at different stages of non-profit sector development and for different types of NGOs. For the Chinese case, while marketization has empowered many NGOs in both autonomy attainment and resource acquisition during the early stage of institutional transition, it could derail civil society development if the market becomes the dominant institutional logic of the non-profit sector. Moreover, government-organized NGOs (GONGOs) and grassroots NGOs might embrace marketization through totally different pathways and with different consequences. The only two preliminary studies of non-profit marketization in China focus mostly on GONGOs but do not evaluate the marketization influences on grassroots NGOs empirically.<sup>29</sup> By contrast, our research aims to examine how grassroots NGOs are affected by market forces through a ground-level look at foundation–NGO funding relations. Before presenting our empirical analysis, however, next we briefly review the emergence of grant-making foundations and the rise of venture philanthropy in China.

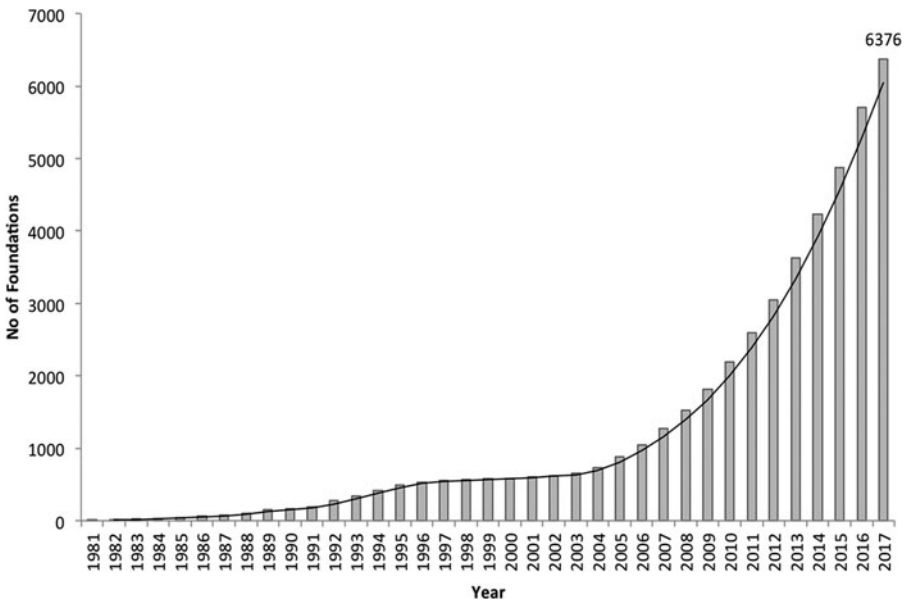
### **Development of Grant-making Foundations and the Rise of Venture Philanthropy in China**

As [Figure 1](#) shows, the rise of China's modern philanthropic foundations is a product of its reform and opening-up. The first foundation did not appear until 1981, when the China Children and Teenagers' Fund (CCTF) was established by the All-China Women's Federation (ACWF). Since then, China's foundation sector has achieved impressive growth, with hundreds of philanthropic foundations established by the late 1990s. Notwithstanding this steady development, one common feature shared by the early foundations was that they were mostly established by government agencies or government-related institutions. For instance, CCTF was initiated by ACWF, one of China's 22 "mass organizations" that are listed as part of the central government. With a strong government background, most early foundations established in the 1980s and 1990s saw themselves as subsidiaries to their affiliated government agencies, in that they

<sup>28</sup> Yu and Chen 2018.

<sup>29</sup> Han 2017; Yu and Chen 2018.

Figure 1: Foundation Development in China, 1981–2017



Source:

China Foundation Center, <http://www.foundationcenter.org.cn>. Accessed 16 November 2018.

functioned to help fulfil the political and social responsibilities of government and their projects were carried out through the administrative arms of corresponding government agencies. Since early foundation programmes were confined within the government administrative system, limited funds were allocated to external, independent NGOs. Consequently, although there were substantial domestic foundations in China at the time, most Chinese grassroots NGOs emerging in the 1990s relied heavily on overseas funding from international NGOs and foreign foundations.<sup>30</sup>

The emergence of grant-making foundations in China was constrained until the promulgation of China's Regulations on Foundations in 2004, which opened up space for private foundation development and triggered rapid growth in the sector (see Figure 1). Compared to their government-background counterparts, private foundations face fewer direct administrative constraints from the government. They enjoy more freedom in both deciding working areas and choosing project partners. In May 2007, the first grant-making foundation, initiated by a Shanghai business corporation, the Narada Group, proclaimed its formal establishment. The Narada Foundation set its mission as pursuing social justice through supporting civic social organizations. After establishment, it immediately became the vanguard in making grants to grassroots NGOs. The Narada

30 Bentley 2003.

Foundation's experience in implementing projects in partnership with NGOs was soon mimicked by many newly established foundations. A year after Narada's establishment, the 2008 Wenchuan earthquake also spurred intensive collaboration between Chinese foundations and NGOs, with even some government foundations starting to work with grassroots NGOs on disaster relief and post-earthquake reconstruction. Since then, dozens of grant-making foundations have emerged and an organizational community of Chinese grant-making foundations has gradually taken shape.

With the emergence of Chinese grant-making foundations, the concept of venture philanthropy (VP) was also introduced into China. Originating in the United States in the 1990s, VP casts doubts on the efficacy of the traditional project-oriented funding paradigm of foundations and advocates introducing lessons from commercial venture capital into grant-making practices. Venture philanthropists believe that the traditional foundation funding model only fosters grantees' project design skills while overlooking their organizational ability to achieve those well-designed project goals.<sup>31</sup> Thus, one of the core lessons venture philanthropists draw from venture capitalists is a commitment to promoting organizational capacity building among NGOs through intensive engagement with grantees.<sup>32</sup> This high-engagement funding paradigm gained popularity within the US philanthropic sector at the turn of the century and has since spread rapidly to other parts of the world.

The VP model was first used in China by a team at the consulting group, McKinsey & Company.<sup>33</sup> In October 2006, the team launched a joint grant-making platform called "Non-Profit Partners" (NPP), which committed to providing both financial and technological support for Chinese NPOs, with six other transnational corporations and two Chinese philanthropic institutions. While the Narada Foundation was still preparing for legal registration in 2006, it became one of NPP's first "customers" for its strategic consulting service. The NPP operation ended a few years later, but Yu Cheng, a co-founder of the original McKinsey team, remained deeply involved with Narada's future development. In 2008, Cheng was elected to the foundation's board of directors and, in 2010, she took on the executive role of general secretary. Under her leadership, the Narada Foundation became a key advocate of VP within China's philanthropic sector, diffusing the idea to many other foundations. For instance, in 2013 the Ai You Foundation announced its own VP project, entitled "Ai You Philanthropy Plus," which aimed to provide comprehensive financial, strategic and management support for Chinese NPOs. In 2017, the K2 Foundation dedicated an annual budget of 10 million yuan to its VP programme, "Xian Feng Action." Other prominent institutions that proclaim that their funding programmes follow the VP model include the One Foundation, Alibaba

31 Letts, Ryan and Grossmann 1997.

32 Letts and Ryan 2003.

33 See <http://www.chinadevelopmentbrief.org.cn/org376/>. Accessed 30 December 2018.

Foundation, SEE Foundation and Yi Fang Foundation. Most of these foundations wield substantial organizational assets and fund projects that cover a wide range of NGOs in China, thereby exerting inestimable influence within the broader sector.

## Two Cases of Foundation Venture Philanthropy Programmes

To illustrate how market influences are exerted on NGOs through foundation funding practices, in this section we present two foundation VP projects, one targeting environmental concerns and the other a broader set of issues ranging from poverty alleviation to elderly care. Both programmes are among the largest and most prominent in their working areas and have served as role models for other newcomers in the Chinese grant-making foundation community.

### *Venture philanthropy project A (VP-A)*

VP-A was initiated by the Green Foundation, an environmental institution launched by the Green Association in 2008.<sup>34</sup> The Green Association is a membership-based organization which was founded by dozens of Chinese entrepreneurs in 2004. By July 2018, the association had expanded to almost 1,000 entrepreneur members, making it one of China's largest environmental groups. Before establishing the foundation, the Green Association had worked in north-west China for several years on desertification problems. After years of working on its own, it came to realize that more NGOs were needed to address China's severe environmental problems. Thus, it founded the Green Foundation in 2008, which is aimed at funding and promoting environmental NGO development in China. Over time, clear work divisions formed between the two organizations. While the foundation functions as a grant-making institution, the Green Association has shifted its focus to membership development. They hold different organizational visions, have separate full-time work teams and operate independently in fiscal terms. Notwithstanding these divisions, the Green Association offers consistent financial support for the foundation by soliciting membership fees from its entrepreneur members. It is this financial relationship that laid the foundation for the project design of VP-A.

Formally launched by the Green Foundation in 2012, VP-A is committed to helping Chinese environmental NGOs (ENGOS) break through their limitations on such aspects as strategic management, team construction and resource diversification, in the expectation that they become real leaders and make greater contributions in their fields. To this end, two sorts of programme support are combined within the project. First, it offers grantees annual funding of 100,000 yuan for three consecutive years. The total amount of 300,000 yuan is quite attractive for many ENGOS, since it is designated as non-restricted funding,

34 To ensure confidentiality, pseudonyms are used throughout.



allowing grantees to cover whatever expenses their organizations encounter such as office rent, staff salaries and equipment fees. While ENGOs might be driven more by financial incentives, the Green Foundation itself puts much emphasis on mentoring, the second key aspect of VP-A's project design. Typically, an entrepreneur-mentor will be assigned to each ENGO once its application for VP-A's programme is accepted by the foundation. This entrepreneur-mentor comes from the Green Association's entrepreneur members and will accompany the ENGO for three years to provide supervision on three key aspects of its operations: strategic planning, capacity building and resource mobilization. Under the tutelage of entrepreneurs, grantees are supposed to achieve rapid development within a short period of time.

Through VP-A's project design, the engagement of business entrepreneurs as mentors to grantees offers an ideal channel for the implantation of market influences in NGOs. Since most entrepreneur-mentors have accomplished considerable success within the market sector, they usually hold strong faith in market forces. Once they become involved with NGOs as project mentors, all the values and methods they have learnt from their successful market experience can be easily projected onto grantees. For instance, an essay entitled "Building NGOs' competitiveness in a market way," authored by one of VP-A's core entrepreneur-mentors, is posted on the VP-A website as must-read material for grantees. The essay encourages NGOs to think in terms of market products and customers:

Within the market economy, when I want to promote a new product, the first thing I need to consider is whether customers will buy it. This is also applicable to NGOs. That is, when an NGO intends to start a new project, it has to consider whether the project would be recognized and supported by other people. Those people that would donate to it are the project's customers. So, the project has to undergo market inspection, to see whether there are people willing to pay for it.<sup>35</sup>

From the entrepreneur's standpoint, this focus on "customers" (referring to NGO donors) is easily explained. After all, entrepreneurs' main responsibility lies in accumulating resources and pursuing profit for their companies, which is precisely the expertise that entrepreneur-mentors can offer to their NGO students. However, when entrepreneurs attempt to transplant the "customer" mindset into NGOs, they ignore one essential distinction between business corporations and non-profit organizations. While a company's customers basically overlap with its service or product purchasers, most NGOs believe the primary beneficiaries of their work should not be their donors. If donors' interests are put first, NGOs run the risk of "goal displacement," in which the major goals claimed by an NGO are neglected in favour of goals associated with maintaining the organization.<sup>36</sup> From our fieldwork, it became obvious that this was a real risk induced by using entrepreneurs as mentors. At an annual project meeting of all

35 Quotation from an essay authored by the general manager of a Hong Kong technology company.

36 Merton 1957, 199–202.

VP-A grantees and mentors held in 2017, for example, one male entrepreneur insisted on the primacy of resource acquisition by NGOs:

Most Chinese NGOs are still at their early development stage. The first challenge they face is how to survive. Thus, you not only need to have good strategic management, but what's more important is to find resources. If someone wants to give you money to do something totally new to you, would you accept it? Of course! You should get the resource first.<sup>37</sup>

This entrepreneur-mentor's insistence on "resources first" corresponds precisely to the previous standpoint of "donors first," as both prioritize organizational maintenance. Moreover, entrepreneurs' pursuit of resources and profits typically exceeds their organizations' survival needs and the continual growth of the business itself comes to constitute the ultimate goal of many entrepreneurs' daily work. In practice, this organizational expansion goal is a key "lesson" mentorship programmes work to impart to NGOs. For example, at the same project meeting, another female entrepreneur-mentor from VP-A was adamant about the desirability of expansion:

I've been on an NGO's board of directors since 2002, serving as the board chair recently. Through this organization, I find a serious problem among NGOs. That is, NGOs cannot grow further after they reach a certain scale. This organization has developed a full-time staff of around 30 people, and its fundraising performance is also quite good among NGOs. But *it is really unacceptable* for us entrepreneurs to see an organization stagnate at that level after more than 15 years' development. This is exactly the organizational limitation that the VP-A intends to help its grantees break through.<sup>38</sup>

With this notion in mind, indicators of organizational expansion constitute key criteria that VP-A uses to evaluate its grantees, even during the grantee selection stage. When ENGOs apply for VP-A, their potential for organizational growth is one of the key factors influencing their chances of being accepted into the project. Additionally, after three years of project funding, when ENGOs "graduate" from the VP-A programme, grantees' expansion on both personnel and fiscal terms also constitutes the core standard of performance assessment. The 2017 project brochure of VP-A boasted of the programme's accomplishments by noting:

Through three years' project funding, substantial changes have occurred among our grantees. In terms of human resources, the mean number of grantees' full-time staff has increased from 2.6 to 8.1. With regard to financial performance, their average annual expenditure has grown from 220,000 RMB to 940,000 RMB.<sup>39</sup>

### *Venture philanthropy project B (VP-B)*

VP-B was launched by the Love Foundation, a philanthropic institution co-founded by several prominent Chinese private entrepreneurs in 2004 right after the promulgation of the Regulations on Foundations. One of China's first private foundations, the Love Foundation initially committed its charitable efforts to helping disadvantaged children. In 2006, it promoted its first medical

37 Speech given by the president of a Beijing investment-consulting group, annual project meeting of VP-A, Guangzhou, 24 March 2017.

38 Emphasis added. Speech given by the president of a Beijing investment management company, annual project meeting of VP-A, Guangzhou, 24 March 2017.

39 Quotation from 2017 project brochure of VP-A.

project for children with congenital heart disease. After that, it expanded to cover children with leukaemia, orphans and disabled children, among others. According to the foundation's official statistics, as of June 2018 more than 110,000 children had been helped by its projects. In recognition of its accomplishments, the Love Foundation has won numerous awards including being honoured twice as the "China Charity Star" by the Ministry of Civil Affairs. Additionally, it has also been able to secure support from many other Chinese entrepreneurs. As just one example, the presidents of China's three largest internet companies – Alibaba, Tencent and Baidu – are all serving on the foundation's current board of directors.

After almost ten years of pioneering and successful work in the field of children's services, the Love Foundation launched VP-B in 2013, with the aim of exporting its experiences to other Chinese non-profit organizations. In the Love Foundation's official introduction, it summarizes the keys to its charitable success using corporate-managerial language: "implementing enterprise management, sticking to the principles of specialization, standardization, professionalization and internationalization, and pursuing efficiency, transparency and measurability." The Love Foundation believes that it is these lessons, drawn from market enterprises, that helped the foundation achieve great success and that these valuable insights ought to be passed on to other Chinese NGOs.

Similar to VP-A, two major sorts of support are promoted in VP-B. On the financial side, VP-B divides its grantees into two types: newly-established organizations still in their early start-up stage and mature organizations which have been in operation for several years. While newer organizations receive 100,000 yuan each year for three years, more mature organizations get 300,000 yuan every year for the same time period. In accordance with the imported venture philanthropy model, VP-B also offers organizational capacity building to its grantees, which serves as a key channel for the Love Foundation to export its market/enterprise experiences to NGOs. Unlike the paired mentorship of VP-A, however, VP-B conducts capacity building among grantees by organizing collective training. Normally, NGOs are called together to take training courses instructed by guest speakers invited by the Love Foundation, and all grantees have to undergo several rounds of training once they are enrolled into the funding project. The basic content of the courses and backgrounds of trainers in the three earliest rounds of VP-B capacity-building training programmes are noted in [Table 1](#).

As the table shows, all but two of VP-B's training courses were taught by either business leaders or business school professors, heavily exposing trainees to market ideas and practices. However, despite the "impressive" credentials of the instructors, these market-focused training sessions were actually not all well received by NGOs. For instance, the founder of a disabled persons' service NGO spoke sceptically when depicting VP-B's training activities:

We were mostly attracted to VP-B by its financial resources. But after we entered into the project, they started to brainwash us (*xiniao* 洗脑) with market ideas. A series of training sessions were held for us about business experiences or cross-sector innovations. For example, they

Table 1: VP-B's Capacity-building Training Programmes

Time	Training Courses	Instructors
September 2015	Business and internet	Mr Wang (president, Dingtian Investment Management Co Ltd)
	Entrepreneurship	Mr Song (president, Kid Smile Chain Studio)
	Business management	Mr Wang (founder, Kaishu Story)
	Enterprise strategy	Mr Cong (management advisor, the Love Foundation)
April 2016	Brand communication	Mr Xiang (training director, Ogilvy China)
	Non-profit law	Mr Xu (professor of non-profit study, Shanghai Jiaotong University)
	Financial management	Mr Zhang (professor of accounting, University of International Business and Economics)
	Strategic positioning	Mr Gong (professor of entrepreneurship, China Europe International Business School (CEIBS))
	Brand marketing	Mrs Li (CEO, Logic Show)
	Human resources	Mr Tan (president, RT Catch Business School)
	Fundraising	Mr Ma (president, General Chamber of Social Enterprise Hong Kong)
December 2016	Design thinking	Mr Wu (user experience designer, Thought Works)
	Strategic innovation	Mr Wei (vice-dean, Peking University HSBC Business School)
	Cross-sector leadership	Mr Chen (professor of strategic management, CEIBS)
	Business model	Mr Xiong (CEO, Ziroom.com)
	Enterprise operation	Mr Gu (free training instructor of marketing)

invited a professor from the CEIBS to instruct us on business innovations. They also invited the CEO of Logic Show and founder of Kaishu Story, among others, to share their entrepreneurship experiences ... Additionally, they organized for us to visit the Tencent and Midea Group, to learn about how to face challenges in the internet era.<sup>40</sup>

Through VP-B's series of training sessions and site visits, the Love Foundation explicitly aims to "remodel" (*gaizao* 改造) NGOs and equip them with a full set of market concepts and methodologies that will allow them to expand rapidly and scale up, just like their business counterparts. In order to make NGOs' growth measurable, moreover, the Love Foundation even developed an exclusive "Non-profit Evaluation Tool" for VP-B with the assistance of Ernst & Young, one of the world's largest accounting companies. The tool is employed to evaluate both NGO applicants to the programme and VP-B "graduates." At the grantee selection stage, NGOs' extant business scale and their potential for future growth form the core assessment criteria determining their chances of acceptance. Likewise, during the funding outcome evaluation phase, grantees' staff expansion and income growth rates are also taken as the key appraisal indicators. One of VP-B's earliest grantees, an environmental NGO named OPE, is frequently

40 Interview with the founder of a disabled persons' service NGO, Beijing, 14 October 2016.

referred to as a typical case confirming the effectiveness of VP-B's funding model. In July 2016, in an interview with *Philanthropy Times*, the project director of VP-B enthusiastically promoted the OPE example:

For organizational capacity building, we conducted all-round diagnoses on OPE's personnel, financial and IT performances. We helped it recruit directors for human resources and financial management ... In 2013, OPE had a full-time staff team of only 11 persons – most were project officers, but with no middle management team. By 2015, the number of its personnel had grown to 28, and its annual income had increased from 3.2 million RMB to 12.7 million.<sup>41</sup>

As shown in the cases of both VP-A and VP-B, apart from capacity building, performance measurement of aspects such as personnel size and organizational income forms another key element that distinguishes VP from traditional foundation funding paradigms. However, this emphasis on quantitative measures – sometimes to the exclusion of other criteria – has attracted criticism since the very beginning of VP development.<sup>42</sup> In the following section, we explore the critical reception of venture philanthropy by Chinese NGOs.

### **Perceptions of Foundation Venture Philanthropy by NGOs**

While the VP paradigm has become popular with foundations, many grantees were not shy in questioning and even challenging the appropriateness of applying market models to NGOs. In this section, we focus on three themes that ran throughout NGO assessments of these programmes: the usefulness of capacity building, the confusion brought by resource-oriented development, and the loss of NGOs' public character. We note here that this research was not conducted as a survey of randomly sampled grantees. The perspectives presented here are thus not meant to be representative of all grantees' concerns, but rather are indicative of recurring critiques posed by a broad range of NGOs.

#### *Usefulness of capacity building*

As the first and foremost feature of venture philanthropy, capacity building can be designed into foundation funding programmes in various forms, like the paired mentorship of VP-A and the collective training of VP-B. In either form, entrepreneurs and the ideas they bring from the market sector exert great impacts on grantees. Yet, how is the capacity building module of foundation VP projects perceived by NGOs? Are the ideas and lessons introduced by entrepreneurs applicable to NGOs? Most interviewees acknowledged the value of foundation capacity building for resource acquisition including both traditional fundraising and monies from commercial revenue, but they cast doubt on its utility for other aspects of NGO work. For example, the founder of a youth development NGO that received funding from VP-B and underwent several rounds of training was ambivalent about its usefulness for grantees:

41 Quotation from a public media interview with project director of VP-B.

42 Frumkin 2003.

That depends on what you intend to get from the capacity building. It is definitely helpful on instructing NGOs to build up social connections for resource mobilization. But, for other aspects, it really depends on what your needs are. Some may feel it is useful but others might find it totally useless.<sup>43</sup>

Contrary to foundations' assertions about the universal fit of market rules to non-profit organizations, grantees do not think they are all applicable to NGOs. In general, most entrepreneurs who become involved with foundation capacity building usually do not have much prior experience of non-profit work. For many grantees, this means that entrepreneurs are only able to give advice on resource acquisition but not on anything substantive about the daily operations of NGOs. This situation provoked many reflections on the NGO side, including bold challenges to the legitimacy of entrepreneurs serving as tutors for grantees. Comments by the founder of another ENGO who was assigned an entrepreneur-mentor in VP-A reflect the kinds of doubts expressed by many:

Except for resource acquisition, I do not see many roles entrepreneurs can play with regard to other aspects of NGO work. Many entrepreneurs actually made their fortunes by speculation in China. They need capacity building themselves, so how can they be supervising NGOs? ... To some extent, the Green Foundation's VP-A serves as a participatory platform for the entrepreneur members of the Green Association to learn about China's environmental protection issues. From this perspective, we NGOs play the teacher role. But, you know it's hard for entrepreneurs to condescend to be students of NGOs. The most important thing for NGOs is that we keep our autonomy from foundation influences.<sup>44</sup>

Turning the mentor-mentee relationship on its head, as this NGO leader suggests, transforms the rhetoric about venture philanthropy's benefits and exposes the power imbalances inherent to its assumptions. In this and other NGO leaders' analysis, entrepreneurs not only fail to provide substantive guidance outside of fundraising but will also begin to benefit the grantees more directly only when they first acknowledge their limitations and open themselves to learning from NGOs. Moreover, this and other interviewees highlighted the necessity of remaining vigilant protectors of their organizations' independence against intrusive donor influence.

Aside from challenging the roles of entrepreneurs in transferring capacity building, some NGOs even developed scepticism towards the essential goals of the capacity building training offered by foundation VP projects. As with the above ENGO founder's point about VP-A's mentorship programme serving as a membership development platform for the Green Association, many grantees saw the capacity building module of foundation VP projects as a fundraising tool for the foundation funders themselves but not something entirely designed around the needs of NGOs. For instance, the founder of a disabled persons' service NGO who underwent several rounds of VP-B's collective training believed that NGO participation was essential to the foundations' own fundraising efforts:

Honestly, I joined VP-B mostly for its financial resources. Then, we had to undergo several rounds of capacity-building training, which seems to be routine for foundation funding

43 Interview with a director of a youth NGO, Guangzhou, 21 January 2017.

44 Interview with a leader of an ENGO, Guangzhou, 31 October 2016.

programmes. During this course, we realized that we are actually employed by the Love Foundation as a “bargaining chip” against its commercial donors. That is, the Love Foundation would persuade its donors that the NGOs it funds are all the best in China, so businesses wanting to support Chinese philanthropic causes should donate to the foundation. The Love Foundation conducts various training programmes for grantees and solicits many resources from other commercial entities. You see, each of us grantees receives funding of 1 million RMB, but that is all raised from outside by the Love Foundation.<sup>45</sup>

Other NGO leaders have come to see foundations themselves as intimately intertwined with the market and driven by their own organizational maintenance goals. Indeed, in order to solicit private donations, foundations have to cater to the tastes of their donors from the business world, people who normally prioritize the potential growth of “investees” when making “investment” decisions. As explained further below, under these conditions, NGOs’ own self-assessed needs – for improved service models and as social change agents, for example – are mostly overlooked or, more cynically, ignored by foundation capacity-building programmes.

### *Confusion brought by resource-oriented development*

Undoubtedly, the market experiences shared by entrepreneurs in VP programmes help NGOs to expand their resources and, indeed, many grantees do achieve rapid growth as a result. But the programmes’ heavy emphasis on organizational expansion does not sit well with all NGOs. During our fieldwork, many grantees expressed confusion about the point of resource-oriented development promoted by entrepreneurs. One NGO leader from Xinjiang, for example, was conflicted about the guidance he received during his first year as a VP-A grantee. His organization, established in 2004, was one of China’s first commercial eco-tourism organizations. After several years of development, he decided to transform it into a purely non-profit entity, committing to nurture environmental activists in north-west China. After joining VP-A in 2016, however, the mentorship programme that followed VP-A’s financial support confused him about which direction he should follow. At the 2017 annual conference of VP-A, the NGO leader openly voiced his confusion:

I encountered Mr Chen [an entrepreneur-mentor] in the elevator on the first day of this annual conference. He told me that my organization would develop better if it became a social enterprise. Well, is that the case? When I transformed the organization into its status quo several years ago, my thought was exactly contrary to what I am instructed now by our mentors. Should I transform my organization back into a self-sustained social enterprise, or just follow my own heart? This is my confusion. I would not say which option is right. This is just the first year of my funding scheme. But, I have to take responsibility for my organization in the end.<sup>46</sup>

His organization is not the only one experiencing such confusion. Another ENGO from Fujian faced a similar dilemma after joining VP-A. Established in 2012, this group gradually developed three key issue areas for its mangrove

45 Interview, founder of a disabled persons’ service NGO.

46 Speech given by the founder of a Xinjiang ENGO, annual project meeting of VP-A held in Guangzhou, 24 March 2017.



forest protection work – damage prevention, protected-area service and public education. After joining VP-A in 2015, the group’s assigned entrepreneur-mentor suggested it narrow its working areas down, so that the organization’s development would become more focused. During discussions about adjusting its strategy, the ENGO founder believed that damage prevention was the most urgent task in the field. Yet, the entrepreneur-mentor urged the group to focus either on protected-area service or public education, which the mentor thought could bring service fees to the ENGO. Facing the dilemma of making a new strategic choice for his organization, the founder of this ENGO also spoke about his confusion during the annual meeting, again challenging the advice given by his appointed mentor:

In the field of mangrove forest protection, the most urgent issue is to prevent more destruction. If we do not respond to the damage problem right now, when all mangrove forests are destroyed it will be meaningless to do anything else ... For the development of NGOs, is “the bigger the better” really true? This is the question our entrepreneur-mentors need to think about.<sup>47</sup>

While some grantees kept alert to the side effects of resource-oriented development, others seemed to easily change their tracks under the influence of entrepreneurs. Given the promise of large funding boosts for VP programme grantees, some NGOs were tempted to chase resources just to meet the programme application requirements. Foundations running VP programmes often set minimal levels of annual income for NGO applicants. Only those groups that reach those levels will be considered as potential candidates for rapid future growth and qualified to apply to the programme. The founder of a left-behind children service NGO explained his predicament when applying to VP-B:

The Love Foundation requires 2 million RMB in annual revenue. My [organization’s] income was 400,000 last year, and 780,000 this year. So I am even not qualified to apply. There was another funding programme offered by the Orient Foundation. They came to me initially but also asked for a minimum income of 2 million. I told them I am not qualified. They said they could lower it down to 1.5 million for me if I promised 2 million the next year. I was worried that I would not make it, so I refused the offer. It’s really painful that we missed these opportunities owing to the gap in income.<sup>48</sup>

By setting minimum income thresholds for grantee selection, foundation VP programmes produce a kind of “Matthew effect” among NGOs.<sup>49</sup> That is, larger organizations receive more resources from funders and become even larger, but most other organizations are just eliminated from the race. It is this dynamic that drives some NGOs to rethink their development strategies and shift direction to resource chasing. In a second interview with the NGO leader above, conducted four months later, anxieties about the future of his organization showed on his face as he explained:

The market force is too powerful. I feel we’re in a great crisis. Maybe we will just be eliminated some day. Hopefully, our financial situation will be good enough to apply for some of these

47 Speech given by the founder of a Fujian ENGO, annual project meeting of VP-A held in Guangzhou, 24 March 2017.

48 Interview with a leader of a left-behind children service NGO, Guangzhou, 13 August 2016.

49 Merton 1968.



funding projects this year. It is so ironic that the bigger becomes even bigger. So, I will try my best to get into the mainstream of big organizations.<sup>50</sup>

Guided by the notion of “getting into the mainstream of big organizations,” this NGO expanded hugely within the following year. At a forum held in 2018, the NGO leader claimed that the beneficiary coverage of their projects had increased almost ten-fold in one year, from 398 left-behind children in 14 rural schools in 2016 to 3,891 children in 85 schools by 2017, and that their annual expenditure had risen from 780,000 yuan in 2016 to 1.4 million yuan in 2017. The organization was well on the way to becoming a successful applicant for a VP programme.

### *Loss of NGOs’ critical public character*

In *On Being Nonprofit*, Peter Frumkin identifies four societal functions for NGOs: service delivery, social entrepreneurship, civic engagement and public expression. He argues that “the long-term health and viability of nonprofit organizations depend on the achievement of balance among the four functions.”<sup>51</sup> However, our research suggests that foundation venture philanthropy has shifted this balance heavily towards social service provision and away from the more politically critical, society-facing functions of civic engagement and public expression.

This shift is largely owing to the logic driving business interests. Generally speaking, businesses are keen to discover different social needs and transform them into market spaces within which they can provide services and pursue financial profit. Guided by this market mindset, NGOs are swayed to focus on tackling micro-level social problems and satisfying specific social needs while downplaying their public roles. One foundation project director, for example, painted NGO goals as unrealistic, unlike the tangible needs addressed by for-profit businesses:

There is a huge difference between NGOs and companies. Companies normally target their work at very small and specific social needs, which they can develop commercial products to feed. But, NGOs try to tackle problems that are simply too big, things that really can’t be solved, like the urban–rural gap in educational development or the lack of critical thinking in education ... You can’t come up with solutions to those, not solutions that can be commodified, at least.<sup>52</sup>

For many NGOs, such talk of “products” that can be “commodified” does not sit well with their own sense of where their social value lies. If all NGOs were encouraged to deal only with technical service delivery issues, they would be at risk of being “instrumentalized” (*gongjuhua* 工具化), as some NGO leaders put it. To the comments immediately above, for instance, the founder of an ENGO funded by VP-A retorted:

NGOs’ social functions should not be over-instrumentalized. NGOs should not only address specific social problems or just provide social services, they also need to dig into the roots of

50 Interview with a leader of a left-behind children service NGO, Guangzhou, 28 December 2016.

51 Frumkin 2002, v–vi.

52 Interview with a foundation project director, Beijing, 23 July 2016.

social problems. Why is there poverty? What causes the migrant children's problem? The essence of NGOs ought to be deconstructing unequal power structures, repairing unhealthy social relations and pursuing more social justice.<sup>53</sup>

In addition to foundation grantees, other outside observers challenged the "instrumentalizing" influence of foundation VP programmes as well. One NGO leader working in the non-profit sector since the 1990s questioned the qualifications of business entrepreneurs to mentor NGOs and expressed wariness about the consequences of non-profit marketization:

Why do entrepreneurs naturally think they can guide non-profit organizations? Chinese NGOs shoulder two missions: fixing social problems and reorganizing society. For those foundation VP projects, we need to examine whether they will do any good to the realization of NGOs' second mission, aside from solving concrete social problems. If NGOs were wholly shaped by the market mindsets introduced by entrepreneurs, it would surely lead to a functional imbalance between their two missions.<sup>54</sup>

As Frumkin's analysis would suggest, in these reflections and criticisms NGO leaders argue that non-profit organizations serve multiple social functions. While these functions can be mutually reinforcing – and indeed many NGOs often argue that pursuing multiple functions helps to ensure their continued survival in a challenging social and political context – their overriding concern in the context of VP programmes is that NGOs' advocacy functions are not displaced by an overemphasis on service delivery or specific social-problem fixing. Whether it is "deconstructing unequal power structures," "pursuing social justice" or "reorganizing society," their ability to insist on their more advocacy-focused roles will ultimately determine whether they can counterbalance the narrowing effects of these venture philanthropy projects.

## Conclusion

Through ethnographic investigation of the funding relationships between foundations and grassroots NGOs, this article explores a rarely examined issue in the field of Chinese NGO studies: the market dynamic of China's NGO development. The two case studies examined in this article show that entrepreneurs' engagement in foundation venture philanthropy projects provides an ideal channel for the implantation of market forces into Chinese NGOs and highlight tensions between market intrusions and NGO perceptions. The market influence is primarily manifested in a perceived push to transform NGOs into social product suppliers and resource-chasing machines akin to commercial enterprises. While NGOs recognize that they can and should serve multiple functions in society, they also worry that market influences risk pulling them towards social service delivery to the exclusion of other societal roles. Moreover, far from pursuing financial support blindly, many NGO leaders maintain a clear understanding of the side effects of resource-oriented development and cast serious doubt on the wisdom of business entrepreneurs in mentoring NGOs.

53 Interview with the founder of an ENGO, Guangzhou, 31 October 2016.

54 Interview with an NGO leader, Beijing, 2 March 2017.

As noted above, NGO marketization is not new within the non-profit sector and it has not gone without contestation in other societies. Other innovations in market mechanism-based funding, such as social enterprises and government outsourcing, for example, are beyond the scope of our current project but deserve careful treatment to gauge their influence on Chinese civil society. However, this study of foundation funding impacts on Chinese grassroots NGOs does provide additional empirical support to the negative critiques of non-profit marketization. As an example of a “transitional” context, while marketization might to some extent benefit GONGOs in China in achieving autonomy from the state, it could also risk leading grassroots NGOs into mission drift, disrupting their self-identities and re-shaping their goals. Given the breadth and depth of Chinese economic marketization over the past 40 years, the logic of the market and its attendant ideology have gained almost uncontested hegemonic influence within the broader society.<sup>55</sup> Thus, it is not surprising to see the intrusion of market forces into China’s non-profit sector. Despite the resistance expressed by many NGOs, the marketization of civil society fits perfectly into the Chinese state’s apparent desire to utilize societal resources to supplement the government’s welfare responsibilities on the one hand, but repress social demands for political democracy on the other. Facing the dual challenges of an assertive authoritarian state and an intrusive hegemonic market, the future of civil society development in China will become increasingly uncertain.

This study of foundation–NGO funding relationships also sheds light on the contested role of philanthropic foundations in patronizing civil society. While existing literature on foundations outside China criticizes either their biased selection of grantees<sup>56</sup> or the unequal partnership between funders and grantees,<sup>57</sup> this paper reveals a combination of philanthropic exclusion and colonization within the Chinese non-profit community.<sup>58</sup> Well-established NGOs with sizable budgets are seen as possessing higher growth potential and are thus favoured by Chinese foundation VP programmes while smaller NGOs deemed unprepared for organizational expansion are excluded. At the same time, given the financial dependence of grantees on funders, foundations are able to push for the marketization of NGOs by involving entrepreneurs in mandated training programmes. This combination of grantee exclusion and market intrusion ultimately risks the co-optation of NGOs by funders and the neutering of NGOs’ civic engagement and public expression functions.

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55 Blecher 2002.

56 Stacey and Aksartova 2001.

57 Silver 2006.

58 Faber and McCarthy 2005.

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## Conflict of interest

None.

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**摘要:** 一直以来,“国家-社会”关系框架在有关中国非营利组织发展的研究中中长期居于主导地位,而市场力量对中国非营利部门的影响遭到忽视。基于其本土公益基金会与草根 NGO 之间资助关系的民族志研究,本文着重探讨中国非营利组织发展的市场化面向。对两个基金会公益创投资助项目的案例考察表明,通过直接参与公益基金会资助实践,中国企业家群体正在将一套市场化价值理念强力推行植入非营利部门内部。不过,大量草根组织对非营利市场化的消极后果保持高度警惕。文章指出,面对基金会资助的资源约束及其背后企业家群体的强势影响,中国非营利部门存在被导向过度关注社会产品供给及组织资源追逐的风险,并对其原有社会价值及组织使命形成功能疏离。文章有关基金会与 NGO 资助关系的观察,进一步揭示了中国公民社会发展的不确定性。

**关键词:** NGO; 基金会; 公益创投; 市场化; 公民社会; 中国

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