

Governance, Organizational Effectiveness, and the Nonprofit Sector in Korea

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Abstract : One of the most talked about developments in social science over the last few decades is the (re)emergence of civil society and its growing influence on many nations' democratic governance. The paper examined the following: (1) an examination of the growth of Korean nonprofits, (2) an analysis of laws and regulations governing nonprofits, (3) an empirical analysis related to organizational governance in Korean nonprofits, and (4) conclusions and policy recommendations. In particular, it was found that internal and external accountability of civil society organizations need to focus on their role as major institutional actors. This implies that as long as the public does not perceive accountability as limited to compliance with legal and regulatory standards, we should expect accountability to include democratic internal governance. To accomplish this task, nonprofits and non-governmental organizations must break out of the traditional mold and become more responsible institutions for the services they provide. It was suggested that by utilizing the Internet as a communication tool, civil society organizations could overcome the space and time constraints of their members, thus facilitating better member participation.

THE GROWING INFLUENCE OF THE CIVIL SOCIETY SECTOR IN KOREA

One of most talked about developments in social science over the last few decades is the (re)emergence of civil society and its growing influence on many nations' democratic governance. The rise of civil society organizations (CSOs) and the decline of nation-states are changing not only the way societal players interact, but also the ways society makes important policy decisions (Koehane, 2002). In 1997, the nonprofit sector accounted for 2.96% of gross domestic products or 5.6% of domestic service goods produced in Korea (Kim, 1999).¹⁾ The sector employs 5.3% of the (full-time equivalent) workforce in Korea, which numbers around 700,000. This pattern of governing challenges the developmental state model, which relies on a strong and centralized government. Governance theories based on unitary centralized governments, state elitism, and top-down decision making are giving way to publicprivate partnerships, co-production, networks, collaborative programs, volunteerism, and bottom-up approaches (Kim, 2003a). In other words, the traditional bureaucratic state, with its reliance on hierarchy, rules, procedures, and universal values, is opening up to new civil society organizations, and states are relying on participatory models that emphasize cooperation and partnership with other policy actors (Lowndes & Skelcher, 1998).

Although the emergence and legitimacy of these non-governmental organizations in

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1) The terms "nonprofit", "nongovernmental organization," "civil society organization," and "civic group" are used interchangeably throughout the paper.

democratic governance has been well documented (Choudhury & Ahmed, 2002; Keohane, 2002; Kim, 2003b), little research has explored the appropriate types and practices of accountability for nonprofits. A discussion of the growing influence of CSOs and their role in democratic governance is not complete without an examination of accountability relationships. In particular, one needs to examine the internal and external (principalagent) relationships among nonprofit management, trustees, government agencies, donors, serviced communities, and other constituents. The paper considers institutionalized accountability relationships that take the form of internal governance and examines accountability relationships between nonprofits and government and between nonprofits and their members in Korea.

The paper is organized into the following sections: (1) an examination of the growth of the Korean nonprofits, (2) an analysis of laws and regulations governing nonprofits, (3) an empirical analysis related to organizational governance in Korean nonprofits, and (4) conclusions and policy recommendations. This paper focuses on three types of nonprofit organizations; corporation-sponsored philanthropic organizations, service organizations, and advocacy groups. Philanthropic organizations usually make grants to artists, researchers, students, and social entrepreneurs, whereas service organizations provide educational, health, and social welfare services. Advocacy or civic movement organizations engage in (political) advocacy activities for societies at large. I analyze the distinguishing characteristics of each accountability relationship.

The Growth of Korean Civil Society

The role of the nonprofit (nongovernmental) sector in Korea has grown substantially over the last 30 years. Between 1970 and 1997, the sector grew at a rate exceeding 22% per annum. By 1997, the nonprofit sector accounted for 2.96% of the gross domestic products or 5.6% of gross domestic services (Kim, 1999). Explanations for the nonprofit sector's growth are as numerous and diverse as the organizations it comprises.

An important contributor to the growth of Korean civil society is the emergence of a favorable political and social environment for the operation of nonprofits. The restoration of democratic government following the mass movement in 1987 galvanized public support for civil society organizations, which played a large role in the movement. Once they were free to organize and advocate for causes they believed in, social elites and activists began to fuel the diversity and pluralism within civic society, made possible by the improved political and social conditions. Since then, nonprofit organizations have proliferated. The data show that 56.5% of all nonprofit organizations were established during the 1990s, while 21% were set up during the 1980s and only 9.0% during the 1970s (Kang, 2001).

Scholars studying the growing influence of nonprofits have based their discussions on both supply-side and demand-side theories (Hansmann, 1987). The demand-side theorists contend that society's increasing demand for services other than those provided by governments has spurred the growth of medical, social service, and educational institutions. Nonprofits serve as private providers of public goods, and the increasing diversity of their sociopolitical and economic perspectives has enabled them to play a bigger role. This has also been made possible by increasing economic prosperity and by political

and technical constraints on public sector growth in the provision of public services. In addition, public concern over the rapid growth of the public and for-profit sectors has led nonprofits to play more active roles.

Supply-side explanations are based on the critical roles that civil society leaders, activists, and policy entrepreneurs play, not just in educating the public about social and political issues, but also in actively establishing organizational frameworks under which new services can be performed. This is in line with entrepreneurial theories, which focus on policy entrepreneurs' issue-generation and organizational efforts in the growth of advocacy groups. This is a particularly plausible explanation for the short-term growth of many rights-based non-governmental organizations in both developed and developing nations. Another important supply-side factor is government support in the form of implicit and explicit subsidies, including tax exemptions. Fama and Jensen (1983) contend that such subsidies were largely responsible for the proliferation of nonprofit organizations in developed nations. This is also true in Korea, where over two-thirds of nonprofits generate revenue from their association with governments. A 2001 survey of 78 civic groups found that, on average, 27% of nonprofits' operating income comes from government subsidies and service fees (Kang, 2001). Total government subsidies reached around 110 billion won in 1999 alone (Kim, 1999).²⁾

Growing Criticism and Challenges Facing Civil Society Organizations

Accountability and transparency are important because they help to define a nonprofit's purpose, functions, and status. It is particularly important for Korean civil society because nonprofits are increasingly providing more social, medical, and educational services to the public, while advocacy organizations and their leaders are becoming embedded in the policy networks of central and local governments (Blasi, 2002). Although nonprofits – which are often thought of as forces of good and representative of the true voices of ordinary citizens – have occupied the moral high ground compared to governments and large corporations, practitioners and scholars have long debated the need to institutionalize organizational governance and transparency to maintain public trust (Keohane, 2002). As Gibelman and Gelman (2001) and Holloway (1998) report, public images of the third sector worldwide have been tarnished by alleged and substantiated wrongdoings on the part of these organizations. Eisenberg (2000) argues that the economic and social status these organizations have achieved has resulted in a self-righteous attitude, while Salamon (1995) argues the “myth of pure virtue” has made civil society organizations susceptible to public criticism. Korean civil society is no exception: It has been accused of various wrongdoings, including its increasingly cozy relationship with the state and its heavy reliance on state funding (Kim & Shin, 2002).

The growing criticism centers on nonprofits' lack of accountability and their failure to institute sound internal governance structures. Accustomed to top-down and hierarchical decision making, nonprofits rarely implement program evaluations or resulted-oriented

2) In addition, the cordial relationship between the state and civil society has enabled the state to tap into important resources that civil society organizations can provide in terms of personnel exchanges. It also enacted the Private NPO Support Bill in 1999, which provided a framework under which governments can sponsor nonprofit programs.

systems that emphasize external and internal accountability. Nonprofits have rarely been questioned about their democratic governance and accountability because their institutional integrity was traditionally thought to be their birthright.

Nonprofit service providers, especially medical foundations, have been criticized for their lack of financial transparency and unethical business conduct involving inflated medical bills. Numerous whistleblowers, aided by their labor unions, have brought public attention to fraudulent accounting and financial practices in several medical institutions, which were subsequently audited by the National Tax Service. In addition, educational foundations that operate private schools have been criticized for their lack of transparency.³⁾ Several universities have been publicly criticized for financial irregularities and the dominant role of their founders in the decision-making process. In some of worst cases, government-appointed trustees had to relieve trustees because of incompetence and relationships with founders.

In cases involving large philanthropic organizations set up by corporations, criticisms have been directed at continuing (informal and formal) ties to the corporations and their founding families. The People's Solidarity for Participatory Democracy (1998), one of most active civic groups in Korea, argued that 45 philanthropic organizations established by Korea's largest corporations were set up either to evade gift and inheritance taxes or to protect large corporations from hostile business takeovers. It also claimed that over a third of the philanthropies' board members were linked to corporations or to founders' families, and these philanthropic organizations were reluctant to disclose operating information to the public.

While philanthropies and service organizations seek to provide public service to the socially disadvantaged or to the public in general, advocacy groups represent the collective noncommercial interests of the general public rather than the special interests of particular segments of society. In other words, advocacy organizations are distinctively committed to the public interest, which is defined in terms of non-economic, collective interests whose intended beneficiary is the general public. The transparency and internal governance of these organizations has become more important as they became a major social force. As advocacy organizations become a vital component of liberal democracy, their internal democracy and public accountability is of critical importance. A more pointed criticism is that they lack both the participation of members in the decision-making process and internal democracy.⁴⁾ Often advocacy groups have been called civic groups without citizens. It is interesting to note that such criticisms often come from insiders (Oh, 2002) and target undemocratic decision-making among a small group of activists that resulted in a centralized decision-making structure (You, 1998). Recent incidents involving internal power struggles among founders and manager⁵⁾ have accentuated internal governance problems.

3) This is noteworthy because the education and research sector accounted for 62% of the nonprofit sector's total output (Kim, 1999).

4) In December 2002, the full-time employees of the YMCA Korea threatened to go on strike in protest against the board chairman, who had been in office for 15 years. The employees accused the chairman of embezzling organizational funds and unfair personnel management.

5) A case in point is one of Korea's most well-known advocacy groups, the Citizen's Coalition for Economic Justice. In 1999 full-time employees called for organizational reform and changes in the

THE LEGAL FRAMEWORK GOVERNING NONPROFIT ORGANIZATIONS

General Regulatory Framework

The Civil Code provides a legal basis for the incorporation, operation, and liquidation of legal persons, including those of nonprofits. It also lists requirements for organizational charters and governance. The incorporation of nonprofits is governed by Article 32, which states that “[an] association or foundation engaged in scholarly work, religion, charity, social interaction or otherwise nonprofit activities may be made a legal person subject to the approval of relevant ministries.” This implies that all incorporated nonprofits have their legal basis under the code unless otherwise stated. In addition, Article 33 stresses the importance of registering with a government agency in order to “come into existence,” while Article 39 states the government’s right to terminate the basis for a legal person if “a legal person operates such businesses outside the scope of their incorporation, or engages in acts detrimental to public interest.” Although the code lays out specific rules for the incorporation and operation of legal persons, the government agencies do not enforce these rules strictly because they lack the resources and personnel to do so.

While the Civil Code deals with the legal incorporation and operation of nonprofits in general terms, the Act Concerning Incorporation and Operation of Public Interest Organization (PIO Act), enacted in 1975, governs most associations and foundations established to serve the public interest in areas of charitable activities, research grant making, and scholarship provision. The PIO Act was enacted to “enable a legal entity to maintain its public and charitable purposes and carry out its activities by supplementing the provisions of the Civil Code” (Jung, Tae-Ku, & Hwang, 1999). As a result, most large philanthropic organizations are required to register with the relevant public agencies and are subject to a stringent set of regulations concerning their incorporation and operation. In addition, the decree supplementing the PIO Act provides more detailed legal basis concerning the incorporation and operation of public-interest corporations. Contrary to popular belief, the PIO Act gives regulatory authorities discretionary control over the operational aspects of public-interest organizations, in comparison to the lax oversight of advocacy organizations provided under the Civil Code. This has tilted the delicate balance in favor of external accountability (compliance) over internal accountability in these organizations.

Because nonprofits have come to rely on a variety of tax rules to secure resources, it is important to examine the rules and regulations concerning the tax treatment of nonprofits (Park, 1997). The connections between the government tax authorities and nonprofits are complex and many. For tax purposes, nonprofits are defined as “incorporated under the Civil Code Article 32 and those corporations governed by special laws including the Private School Act (Article 1 of the Income Tax Act).” The

decision-making process. In another case, a similar tension between the leadership and full-time staff was reported at the PSED, which was later resolved without public controversies (Kim & Shin, 2002).

National Tax Service has established internal rules concerning nonprofits' eligibility for tax exemptions, which include provisions on certain operational aspects as well as the internal governance structure. For tax purposes, qualifying nonprofits are required to operate and maintain records for public information in accordance with the Income Tax Act.

In addition, each ministry has established its own set of internal rules concerning the incorporation and monitoring of nonprofit corporations, which do not have the same legal authority as acts or decrees but, nevertheless, "function as guidelines for the administrative procedures" (Jung et al., 1999). These (internal) administrative rules are often strictly enforced when it comes to the incorporation of nonprofits, but rarely are the activities of nonprofits closely monitored.⁶⁾

Aside from general laws governing nonprofits, other establishment acts deal with service organizations such as hospitals, educational institutions, and social welfare agencies. The Medical Act, for instance, outlines broad guidelines under which health care providers and hospitals must operate. Nonprofits established to run medical facilities are closely supervised by the Ministry of Health and Social Welfare and are subject to stringent sets of regulations, including medical ethics rules. Nonprofits that violate the Act are subject to fines or cancellation of their operating permits. Likewise, the Private School Act allows only well-endowed nonprofit foundations to run private schools and allows the Ministry of Education and Human Resources to impose regulations on the establishment and operation of these institutions. Again, the government retains the right to order the liquidation of any nonprofit, but only in exceptional circumstances.

The Social Welfare Act governs nonprofits established to provide services to the general public, including those with facilities for the elderly, orphans, the poor, victims of sexual crimes, and others with disabilities. According to the act, the government retains the right to cancel subsidies and even operating permits if no other administrative penalty can enforce government guidelines and orders.

Finally, the Private Nonprofit Assistance Act was legislated in December of 1999 to "provide an enabling environment for nonprofits in pursuance of public interests." As a result, the government has a legal basis for aiding "sound growth of the civil society sector." In 2001 alone, 15 billion won was allocated to more than 500 nonprofits nationwide. To receive subsidies, nonprofits are required to submit project proposals, and a private but government-appointed panel selects recipients based on merit. Only nonprofits that are registered with government agencies are eligible for assistance. At the conclusion of their projects, nonprofits are required to submit year-end reports to the government.

6) Although nonprofits are subject to various tax laws, including the Gift and Inheritance Tax Act and the Corporation Tax Act, they are beyond the scope of this paper.

Table 1. The Legal Framework for Nonprofit Organizations in Korea

Type of Nonprofit	Governing Regulation
All nonprofits, except those subject to special laws, including most advocacy organizations	Civil Code
Associations or foundations established to serve the public interest in the areas of scholarship provision, research grant making, scholarly work, and charitable activities	Act Concerning Incorporation and Operation of Public Interest Organizations
All medical institutions created under the Civil Code, Article 32	Medical Act
All educational institutions created under the Middle School Act (Article 2) and High School Act (Article 2)	Private School Act
All social welfare institutions created under the Civil Code, Article 32	Social Welfare Act

In summary, there are multiple and contradictory standards of nonprofit incorporation and operation in Korean law, ranging from the PIO Act, which imposes some of the most stringent regulations on large philanthropies and other nonprofit organizations, to the Civil Code and the individual establishment acts. Contrary to a popular belief, service providers such as medical institutions and social welfare agencies face stricter regulation of their incorporation and operation than do advocacy organizations, which are subject to lax oversight under the Civil Code.

The Legal Mandate on Internal Governance

Civil Code

The Civil Code has several provisions on the structural aspects of internal organizational governance its role in the running of nonprofits. The code requires incorporated nonprofits to have trustees (Article 57) and a general assembly (Article 69). The role of the trustees is laid out in Articles 58–65, while those of general assembly are stated in Articles 68–76. Trustees represent corporations and make “policy decisions delegated by the General Assembly,” while the general assembly functions like a shareholders’ meeting. The code also states that regardless of the type of legal person, the establishment of an internal auditing body is optional. The general fiduciary duties of trustees are laid out in the code, but the specifics of those duties, including monitoring management and making major policy decisions, are not detailed enough for government agencies to enforce.

In general, the legal status of nonprofit boards falls somewhere between the laws on trusts and business corporations (Middleton, 1987). The law on trusts prohibits self-dealing, holds trustees liable for simple judgment, and disallows the delegation of management responsibilities. Business corporation law is less stringent in that it allows self-dealing and delegation of management duties, but the board maintains supervisory responsibilities. Although nonprofit boards are left to determine their roles in some gray areas, there has been a subtle moves toward making trustees more involved and

responsible for important policy decisions about organizational operation.

Act Concerning the Incorporation and Operation of Public Interest Organizations

The PIO Act imposes regulations concerning the internal governance of public interest organizations. Of its 20 articles, six address internal governance (Jung et al., 1999). Under the PIO Act, nonprofit corporations “shall have between five to fifteen trustees,” and their appointments are subject to government approval. The proportion of trustees having a “special relationship” with corporation owners cannot exceed one-fifth of the total board members.⁷⁾ Trustees are often appointed to four-year terms and may be reappointed by the boards. The chairman is appointed from among the trustee members by the board. If a trustee or the chairman has a conflict of interest with the organization, he or she cannot vote on that issue. If a trustee is found to be in violation of government guidelines, the government can remove him or her from the board.

Under the PIO Act, philanthropic organizations are required to appoint two auditors to oversee financial health. Auditors should not have any special interest in the affairs of philanthropies, and the government may recommend the appointment of a new auditor if it considers the board’s choice inappropriate. Auditors are required to report any accounting or policy irregularities found during the examination of financial accounts. If a director’s conduct is considered detrimental to the interest of the organization, the auditors may have the court remove that director. The act states that the board is responsible for “making major decisions including investment of its assets, budget and finance related matters, changes in organizational charter, disestablishment of organization, appointment of directors, and other items listed in organizational charter” (Articles 3–6).

Other Acts

The legal requirements for nonprofits governed by the Medical Act are similar to those of the PIO Act, in that boards of trustees play an important role in governance. According to the Medical Act, the government can recommend members to the board of trustees and retains the right to dismiss a director if he or she refuses to follow government orders or violates law.

The legal requirement on nonprofits governed by the Private School and Social Welfare acts are also similar to the Medical Act, in that the government can appoint a temporary director if a position is vacant. This means the government can dismiss and appoint directors.

The Legal Mandate on Transparency

The legal mandates on financial management and transparency are similar for organizations governed by the Medical Act, Private School Act, and Social Welfare Act. Nonprofits governed by individual incorporation acts are required to report their annual business plans, budgets, and year-end financial statements to the appropriate regulatory

7) Special relationships include family members, relatives, dependents, and employees of affiliated organizations.

authorities. However, public interest organizations are required to submit income statements, balance sheets, and cash-flow statements, as well as any changes in accounting standards, to the appropriate regulatory agencies. The government may ask organizations to append an audit certificate from a certified public accountant for their year-end financial statements. Nonprofit foundations operating private schools are required by law to keep their account books ready for government inspections. In addition, nonprofits receiving financial assistance under the Nonprofit Organization Assistance Act are required to submit detailed reports on their use of government subsidies, although they have no obligation to report their overall financial status.

Another important law that deals with nonprofit transparency is the Gift and Inheritance Tax Act, which stipulates that nonprofits must maintain accounting books and tax files for 10 years. According to this act, nonprofits with assets over 3 billion won (approximately US\$2.5 million according to the December 2002 exchange rate) must have an independent external auditor examine their financial status and report the findings to the relevant tax office. The external audit must be performed every two years by more than three legal or tax experts. In addition, to discourage scrupulous corporations from using nonprofit foundations and associations as holding companies, the act does not allow tax breaks for donations of corporate stocks that exceed 5% of the total stock issued by a single company. However, the act exempts nonprofits from the mandatory external audits if no single person or company donated more than 5% of its total endowment during the year.

Assessment of the Legal Framework

One of foremost concerns about the Korean government's regulation of nonprofit operations is that different standards apply to different types of nonprofits, leaving open the possibility that newly established organizations may "shop around" for a favorable regulatory regime. For instance, the application of internal governance and reporting requirements for most philanthropic organizations governed under the PIO Act leaves little room for these organizations to "initiate or become innovative" for fear of running into government regulators.

Already burdened by the public perception that corporation-sponsored charitable organizations work in the interest of large corporations, these philanthropies are forced to concentrate on conventional charitable activities such as giving out scholarships and research grants. While philanthropic organizations are subject to the more restrictive PIO Act, service organizations face regulatory regimes set up by various special laws. On the other hand, civic organizations and other nonprofits are governed by the Civil Code, which imposes the least restrictions on the operation of nonprofits.

The PIO Act places more emphasis on external accountability—that is, management's responsibility to outside constituents, including the government—which imposes a cost on their operational efficiency and internal accountability. For instance, with restrictions on who can become a board member, corporation-sponsored philanthropies may appoint figureheads with little experience in the work of the organization. One explanation for the difference is that the government is more concerned about business corporations and service organizations abusing their tax-exempt status than the positive influence these

philanthropies can have on the society through their unconventional works.

On the other hand, advocacy and civic groups face minimal oversight of their internal governance and financial transparency. Moreover, because the government fears stirring up confrontation with “feisty” advocacy groups, it has been reluctant to enforce some of the regulations set up by the Civil Code or the tax laws. This lack of uniformity in the enforcement of the law among different types of nonprofits is likely to diminish the credibility of government regulators in the future. We recommend the government consider appointing an independent commission to study the rules and regulations concerning nonprofits and its enforcement of those rules. In order to create a favorable environment for nonprofits, the government should subject all nonprofits to the same standards of accountability and internal governance.

INTERNAL GOVERNANCE AND TRANSPARENCY IN PRACTICE

To examine how nonprofits have established their own internal governance and how the government’s regulatory framework influences the operations of nonprofits in practice, we surveyed 48 large Korean nonprofits. Of the organizations surveyed, 11 were corporate philanthropies, 17 service organizations, and 20 advocacy groups.⁸⁾ For our analysis, the philanthropies surveyed were chosen from the top 20 philanthropies in terms of total assets in 1999.⁹⁾ Service organizations and advocacy groups were chosen based on their public recognition, history, and reputation.

Internal Governance

Philanthropic Organizations

The internal (performance) accountability of these foundations ultimately rests on the trustees or board directors. However, in corporate-sponsored foundations, we found that trustees operate within the realm of broad corporate policy. The loss of trust they suffer from acting in the broader interest of corporations will ultimately strain the working relationship between these philanthropies and corporations, leading to a decrease in inflow of working capital to foundations. This is because many of the large Korean philanthropies are established by founders of large business corporations and are usually run by the founders or their family members.¹⁰⁾ Although the PIO Act limits the appointment of trustees with a special relationship with the corporation, the founding families still retain powerful influences on the decision-making process. Despite vast material resources they command in terms of their endowments,¹¹⁾ their organizational

8) Of the 17 service organizations, seven were social welfare agencies, five private school foundations, and five medical institutions. Of the 20 advocacy organizations, five were consumer advocates, five environmental, and 10 general civic groups.

9) Of those 11 philanthropies, seven focused on education (scholarship and research grants), two on culture and education, and one on social welfare and education.

10) Seven out of 11 chairmen of philanthropies surveyed were either founders of business corporations or family members.

11) The average endowment of these philanthropies in 1999 was 468 billion won (roughly US\$390

structures appear to be quite simple. Of the 11 philanthropies surveyed, six had no more than five full-time staff one only one had an executive officer (secretariat office). The average numbers of full-time employees and trustees were 9.72¹²⁾ and 8.72, respectively. The board meetings were held an average of 3.27 times per year, with an average attendance rate of 86.8%. This reflects the conservative nature of these organizations as they try to shake the public perception they are a part of large corporations. Many of the organizations surveyed said their boards lacked in in-depth discussions of their mission and mandates, and six of the 11 said their boards usually vote on issues without much discussion. In addition, most of boards' agenda are determined by the management: Only 28% of the organizations surveyed said their trustees were actively involved in the process.

One explanation for the limited business scope of Korean philanthropies is excessive government regulation. The government has been apprehensive about elitism and the self-interest of corporations.¹³⁾ The government has put regulations in place to oversee the operations of public interest organizations and has the power to inspect and even intervene in activities that it deems irrelevant to the mission of these organizations. In addition, even decisions made by trustees are subject to government approval, including director appointments and major investment decisions. The government even has the authority to dissolve a philanthropic organization if it is found to operating against the public interests. As a result, government regulation may have prevented philanthropies from seeking a more active involvement in public affairs.¹⁴⁾

Another explanation is the powerful influence of controlling shareholders on their organizations, which may influence not only the appointment of trustees, but also their approach to new business. Although charitable contributions are considered a part of the broader set of social activities in which large businesses are involved, and most of their contributions are designed to influence conditions outside the firm's immediate economic concerns, often trustees must act within the corporate frame, ultimately having to satisfy the majority or the controlling shareholders that what they do is in the firm's interest. We found that holding companies and conglomerate headquarters that oversee the operations of subsidiaries and foundations have been indirectly involved in the running of these philanthropies by influencing the appointment of trustees and important policy decisions. We also found they made little effort to recruit representatives from important external constituencies or to include in the board's functions cultivating relationships with key elements in the community. Unless the boards of trustees is truly autonomous with respect to its relationship with corporations or founding families, they will continue to be seen as a part of corporations' business activities.

Service Organizations

For nonprofits that run private schools or provide health services to the public,

million).

12) Of the 11 philanthropies we surveyed, only four had a staff of more than 10.

13) Many of corporation-sponsored foundations are legally indistinguishable from independent foundations; they file the same reports, meet the same requirements, and singularly commit their funds to a public cause.

14) During the telephone interviews with program officers, many had carefully expressed concerns about excessive government regulation and the inflexibility of bureaucrats.

transparency and accountability may have broader consequences with regard to customer trust and government relationships. Unlike philanthropic organizations, the beneficiaries of these nonprofits' activities are stakeholders or the recipients of services who often pay for them. Internal governance becomes an important factor in ensuring the efficient provision of services to customers. In addition, service agencies that receive government funding enter into a contractual relationship with the government that requires them to fully disclose financial and operating information while maintaining transparency and public accountability in their operations.

Our survey of social welfare organizations found that boards meet frequently and tend to discuss issues thoroughly. Despite the legal requirement of at least five board members, they had an average of 13.57 directors who meet 6.78 times per year; more than 70% of the trustees took part in the process. Four out of six organizations said their trustees are involved in the agenda-setting process, while five out of six took votes after active discussions. Some suggested that faith-based social welfare agencies tend to encourage active participation of their members. In our survey, four of the six welfare organizations surveyed had been established by religious organizations.

Most of the educational and medical foundations surveyed had relatively simple organizational structures consisting of a board and a secretariat. We found the organizational structure and number of board members were consistent with the legal mandate. On average, boards consisted of 10 members and two (internal) auditors. However, regardless of the number of board members, all of the organizations that provided information had only the chairman of the board working full-time. Asked about the number of board meetings held in a given year, most answered they held between three to five meetings. Five of the six foundations that provided information on their board decision-making process said that most of the board's decisions were made without active discussions, suggesting that board governance is weak.

Advocacy Groups

For advocacy groups, transparency and accountability ensures the legitimacy of their operation, which, in turn, confers public trust, a critical component of their survival. Public trust enables them to pull resources together and apply public pressure on policy issues. This trust is often founded on the higher ethical standards these organizations seek to pursue, and there is an implicit understanding that their decision-making process is more transparent and democratic (Kim & Shin, 2002). Securing transparency and internal (and external) accountability ultimately ensures the long-term viability of these organizations. But the task is a delicate one: Institutionalizing internal governance structures and standard operating procedures without bureaucratizing the whole process can be difficult.

One of the unique features of Korean advocacy organizations is that they are networks of subgroups that are knit together by a common ideology and (in)formal organizational goals. Each (advocacy) program has its own staff and a significant degree of operational autonomy. In essence, advocacy organizations are a blend of centralized bureaucratic organizations and decentralized participatory organizations. However, the recent growth of these organizations has sped up the centralization process to maximize much-needed resource mobilization and to coordinate activities. Jenkins (1987) mentions that orga-

nizations can “maximize community ties and pursue diverse goals while centralizing technical services.”

This, in turn, necessitated a collective decision-making system among (cell) leaders. In terms of the composition of the leadership, they consist of elite professional¹⁵⁾ and executive members (Oh, 2002). In our survey, 10 out of 20 organizations had a highly centralized organization structure in which the board effectively functions as the top decision-making body and combines the role of executive secretariat. Of the 16 organizations that responded, 10 had combined the executive body with the board. The so-called steering committees in Korean advocacy groups (sometimes called executive committees), functioning as boards, retain the authority of policy deliberation, policy making, and implementation. Even organizations with separate decision-making and executive bodies had their trustees working as program directors. According to the survey, three out of seven civic groups had executive officers holding dual positions.¹⁶⁾¹⁷⁾ In our survey, the executive officers believed the steering committee is by far the most important. This implies that members’ expressed views are rarely reflected in the policies of Korean nongovernmental organizations. This is despite the fact that five of 10 groups responded had a turn-out ratio of 60%¹⁸⁾ and proves that members rarely have control over executive officers in these types of organizations in Korea.

It is ironic to find that as many nongovernmental groups seek to promote greater democratization in their countries, the organizations are often not fully democratic or transparent themselves (Democracy Forum, 2000). Some have stated that this is a result of their institutional history: They had to remain secretive and nimble in the face of political oppression under authoritarian regimes. Often, the absence of democracy within an organization reflects a strategic decision by its leaders to maximize their ability to make decisions in a rapidly changing environment. This is also true in Korea: Many advocacy groups that were established by civic activists experienced in democratic movements have highly centralized decision-making structures to deal with rapidly rising policy issues (Oh, 2002). The centralized internal structure requires the concentration of information for speedy decision making, further alienating a majority of members from the decision-making process.

Another unique characteristic of advocacy groups is that nine out of 20 advocacy groups surveyed had more than one chairman, while two had more than 10. On average, they had two chairmen. This not only creates problems in assigning responsibilities, but also free-riding problems. Often the phenomenon of “gilded nameplate” boards, a term that is used to describe boards that consist of prominent individuals who play no real role in the management of the organization, is prevalent, allowing full-time managers and activists to fill the management vacuum.

Lastly, we found that all advocacy organizations had complex internal governance structures in which steering committees, senior steering committees, executive committees,

15) Most of the active professionals were lawyers, professors, and certified public accountants.

16) The data for consumer and environment organizations were unavailable.

17) There was an instance in which an executive officer held the position of internal auditor.

18) The remaining five said it was lower than 5%. We found that membership size was negatively correlated with the turnout ratio, perhaps because of more severe free-riding’ problems in larger organizations.

and taskforces are intertwined in decision-making process. Their existence can be explained in terms of compensating for the lack of organization democracy explained earlier.

Transparency

Philanthropic Organizations

According to our survey, although philanthropies more than adequately met the reporting requirements set by the government agencies, they were reluctant to provide more detailed financial and operational information to the public.¹⁹⁾ In interviews with foundation officials, we found they were skeptical of interacting with the public or disclosing information, contrary to the information disclosure requirements of the PIO Act.²⁰⁾ In our survey, only half of the 11 foundations surveyed disclosed financial information and year-end reports on the Internet. Six organizations had organizational charts available on online and five had biographies of directors. However, none of these organizations published information about their boards' major policy decisions.

Stringent government regulation and control by founding families seem to have led these philanthropies to concentrate on programs they consider to be uncontroversial, and their roles are further diminished by a lack of leadership in their boards of trustees. In order for corporate-initiated foundations to gain public trust, they need to engage the public in a discussion of their roles and make their decision-making processes more transparent. Because the public is highly skeptical of the philanthropies' special relationship with their sponsoring corporations—which, in turn, limits their role in the society—they need to pursue more proactive information disclosure policies.

Service Organizations

In the case of social welfare organizations, although all had their own Web sites, only three out of seven surveyed provided public information on their business and financial status in their web sites. In addition, three provided organizational charts, while three gave out biographies of directors. However, they were more willing to disclose relevant information to the public when it was requested during our interviews. Unlike philanthropies, these organizations are not required to make their financial status public under the Gift and Inheritance Act.²¹⁾

During the telephone interviews, six out of seven program officers mentioned they maintain a good working relationship with the government agencies. However, some mentioned the level of government intervention depends on how much government

19) They were found to be in compliance with the Gift and Inheritance Law, which requires philanthropies to maintain account books and relevant documents for 10 years after the end of a fiscal year.

20) We found that nine out of 11 had a homepage. In terms of the information available online, seven provided their general policy objectives, seven provided year-end reports, six provided organizational charts, and six provided biographies of directors. However, only four provided such information off-line to the general public.

21) The Gift and Inheritance Law exempts nonprofits from the mandatory external audit if no single person or company donated more than 5% of total endowment.

subsidizes their programs; those receiving a large portion of their operating income through government agencies tend to be subject to more intervention.

For educational and medical institutions, the survey and interviews suggested that because of the tight regulatory framework and high level of government subsidies, the organizations tend to focus on maintaining good working relationships with public agencies. The Ministry of Education and Human Resources and the Ministry of Health and Social Welfare require organizations to submit annual operating and financial reports. These ministries also conduct informal inspections to monitor the nonprofits' progress and to supervise their activities. Government regulation is supposedly aimed at maintaining a stable supply of important public services and financial sound stewardship. In the case of educational institutions, a total of 18.36 billion won in government subsidies was provided in 2000 alone.²²⁾ However, these nonprofits were not interested in actively engaging the public. None of them had their own Web sites and only two out of 10 surveyed provided basic information about their organization through the school's or hospital's homepage.

Advocacy Groups

According to the survey, most of the civic groups, including consumer and environmental groups, disclosed operating and financial information through their homepages. Most large civic groups had well-established information disclosure policies and seem to have realized that full disclosure is the best policy for gaining and maintaining trust among donors and the public. Most of these organizations fully utilized new information technology in their outreach and were particularly good at marketing their organizations and programs for the purpose of mobilizing resources. However, financial information provided on the Internet was sketchy at best, and only financial summaries were available.²³⁾ Only four out of 20 advocacy groups provided such information, while 15 provided such information only to their members. Eleven groups did not disclose organizational charters or executive officers on the Internet. We also found that civic groups were more aggressive than consumer or environmental organizations in their information disclosure policies.

On a positive note, although the Civil Code does not require advocacy groups to appoint internal auditors, 12 of 20 advocacy groups had appointed them, demonstrating their willingness to adhere to financial democratic principles and transparency.

Summary and Assessment

Pfeffer (1998) identifies three types of organizational democracy: (1) the polyarchal model, in which members control their leaders by giving or withdrawing resources amid leader competition; (2) the participatory model, in which members participate equally in making significant collective decisions; and (3) the descriptive representative model, in

22) The amounts are roughly equivalent to US\$0.3 million and US\$15 million, respectively.

23) "Summarized disclosure" refers to the disclosure of information without a detailed breakdown by year or activity. Detailed disclosure is defined as providing formal reports on the Web site with a detailed breakdown by year and activity.

which leaders are chosen according to the demographic characteristics of the membership. Advocacy groups in Korea appear to be using a modified version of the polyarchal model: Instead of emphasizing membership control, leaders are controlled by internal committees that consist of full-time staff and professionals. We found that most advocacy organizations had a multiple layers of hierarchy, ranging from general assemblies to steering committees, senior steering committees, executive committees, and taskforces. Their existence can be explained as compensating for the apparent lack of organizational democracy defined in the original polyarchal model. Instead, they have adopted a centralized but collective decision-making framework. Although these groups have generally adopted a collective decision-making system, they are not governed by strict democratic rules. Despite the advantages associated with a centralized and collective internal governance structure, we are concerned about the integration of decision-making structures and generally weak membership participation.

Different kinds of nonprofit organizations have different organizational structures. Once in place, these organizational structures set the boundaries on the types of tasks that can be pursued. In our study, we found that government regulation and the legal framework explain most of the difference in internal governance and public accountability. Advocacy groups, which are subject to lax government regulation, have the most liberal organizational structures and overlap organizational functions and officers. On the other hand, service nonprofits governed by legislation seem to have very formal organizational structures like those of modern business corporations.

With the exception of social welfare organizations, the boards often function poorly. The influence of founders seems to have overshadowed the functions of boards and their members in philanthropies, and educational and medical institutions. In the case of advocacy groups, an elite group of civic activists seems to exert a disproportionate influence over their organizations among various constituencies. This suggests that most Korean civic organizations need to ensure public accountability and internal democracy while providing more information to their members and to the general public.

While systematic self-regulation to ensure transparency is absent, government regulation and supervision seems to be the strongest factor in ensuring financial transparency in civil society organizations. However, in order for the nonprofit sector to engage society, it needs to ensure the financial and operating transparency of its organizations. Unlike other nations, where multiple stakeholders are creating difficult principal-agent issues, the Korean civil society is confronted with the problems of charismatic founders and dominant government agencies. In order to institutionalize a well-functioning internal governance structure based on checks and balances, more emphasis needs to be placed on internal constituents other than founders.

CONCLUSIONS

The legitimacy of civil society organizations stands on their substantive and procedural justification for undertaking social and political action. As civil society organizations become more involved in policy making and implementation, these forms of justification move beyond traditional measures of accountability. The traditional approach

values the organization's fiduciary responsibility to the government regulatory agencies in terms of complying with legal and regulatory standards and to donors and members who make resources available. The latter is often discussed in the context of internal accountability through program evaluation and results-based performance auditing. While "institutional learning sustains organizational effectiveness, institutional integrity grants legitimacy to the practices" (Choudhury & Ahmed, 2002). To strengthen the social-capital-enriching role of civil society organization, internal and external accountability needs to focus on their role as major institutional actors. This implies that as long as the public does not perceive accountability as limited to compliance with legal and regulatory standards, we should expect accountability to include democratic internal governance. To accomplish this task, nonprofits must break out of the traditional mold and "consider themselves as publicly responsible institutions for the services they provide" (Choudhury & Ahmed, 2002).

However, it is interesting to find that an overemphasis on the traditional mechanisms of accountability may have undermined institutional integrity in some civil society organizations. Overzealous bureaucrats who try to protect the public interest by strictly enforcing the rules and regulations for monitoring often bureaucratize organizations, affecting organizational efficacy and organizational legitimacy. I would argue that organizational legitimacy is also affected in two other ways: the public may perceive that organizations are more interested in keeping governments happy, and it may pull resources away from procedural activities, which may hinder their operational effectiveness and legitimacy. For instance, the PIO Act forced philanthropies to incur a heavy administrative burden and rely on the traditional forms of external accountability, resulting in a loss of managerial autonomy and advocacy strength.

In seeking to further the role of nonprofit boards, organizations need to consider that the board has two main functions: (1) to ensure members that contributions are properly applied, and (2) to assure those it serves that the organization is furthering its mission. In fulfilling these duties, the board must monitor overall performance and set a strategic direction. Based on this examination of internal governance and decision-making processes in Korean nonprofits, we feel this is an area where improvements can be made in organizational efficiency and organizational legitimacy.

As long as the transparency and internal governance of the civil society sector are considered important, new and innovative ideas will continue to test academicians and practitioners. A case in point is the innovative governance and participatory practices of Korea's Citizen's Action Network. It is noteworthy because the organization is utilizing new information and communication technologies that supplement the traditional decision-making process. The idea behind the innovative practice is simple: It uses Web-based technology to facilitate better communication among its members and to create a forum of discussion and collective decision making. The Internet has created a new way of communicating among people and organizations. By utilizing the Internet as a communication tool, civil society organizations can overcome the space and time constraints of their members, thus facilitating better member participation.

Another advantage of using the Internet is that it enhances transparency in several ways. First, because all opinions are exchanged in an open forum, decisions are made in a more transparent manner. Second, annual reports are posted on the Internet, enabling

members to closely examine their effectiveness. Three, the use of bulletin boards has enabled members to exchange ideas and hold discussions before official Internet meetings are held. In short, the Internet has a great potential to decrease transaction costs for members. This implies the polyarchal model of membership control, which was borne out of necessity, can give way to a more participatory model that can converge with the decentralized informal structure. Membership control lies in direct involvement in decisions, and the internet technology enables that to happen.

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