

2014

BioTechnology

An Indian Journal

FULL PAPER

BTAIJ, 10(8), 2014 [2327-2335]

Study of the reputation crisis mechanism of NPO

Miao Jianhong*, Feng Junwen, Pan Linna, Han Zhaozhao

E-mail : 21478888@sina.com

ABSTRACT

With the recent global turmoil, various contradictions and shock filled the sky above the city, which in turn spawned more crisis. Besides, the numbers of non-profit organizations are growing, and the risks inherent are becoming more and more. Once it started, the extremely serious impact is difficult to recover. This paper intends to analyze on the reputation crisis mechanism of NPO and discuss the characteristics of reputation crisis and reasons, which in turn provide an effective basis for further research related to the reputation crisis management normalization of NPO.

KEYWORDS

NPO; The reputation crisis; Mechanism.



INTRODUCTION

With the advancement of technology, the development of the times, and the improvement of living standards, social life conflicts and problems are also increasingly exposed. Therefore, as the third largest sector---non-profit organizations which are to meet the needs of the community have sprung up. By the end of 2008, registered non-profit organization has been increased to 414,000 in China. The number of non-profit organizations, not only get the astonishing development in our country, but also has become obvious function and play more important role in China's socialist modernization^[1]. The development of non-profit organizations significantly promote the development of economy, society and the all-round development of people is, and play a positive role for the establishment of the normal order of the socialist market economy.

American scholar Davies Young considered: "a good reputation is critical for any one solid organization which wants to get long-lasting success, while reputation management is a valuable industry." Understandably, Reputation is the fundamental foothold and the long-term, stable, sustainable development guarantee for a nonprofit organization. The research on the reputation crisis mechanism of NPO is urgent. Especially, the analysis for the reputation crisis mechanism of NPO can help us to understand the characteristics, signs, and causes of the non-profit organization's reputation crisis, and then provide us with research foundation to further prevent and mitigate the hazards of nonprofits reputation crisis^[2].

Throughout the existing a lot of international and domestic research works, the studies related to non-profit organizations, or researches on the enterprise reputation crisis are or more, but researches on reputation crisis mechanism of NPO is still very rare. This is not only bring difficulties to the theory research of nonprofit organization reputation crisis, but also creates challenges for the non-profit organizations to improve operation level, the government to strengthen the management of non profit organization, and community to increase supervision of and confidence in non-profit organization.

In view of the above-mentioned theory and omissions in reality, this paper will researches the status quo, characteristics, classification, and the generation mechanism of the reputation crisis of non-profit organizations. In order to find signs of reputation crisis of nonprofit organizations, and then summarizes the characteristics of the reputation of the crisis, providing a reference for all stakeholders.

RELATED CONCEPTS

Non-profit organizations

Non-profit organization, abbreviated as NPO is not a localized concept. Often, it is also called "Voluntary Organization", "Charitable Organization", "Third Sector", "Tax-exempt Organization" and so on. The academic circles at home and abroad to non-profit organizations has not a consistent, universally accepted definition. An authoritative definition of non-profit organization recognized by Salamon et al of the Center for Comparative Studies of Nonprofit Organizations in Johns Hopkins University. They thought non-profit organizations are with characteristics of organization, folk, autonomy, public, non-profit, voluntary. However, this definition and many foreign definitions as mainly aimed at defining the foreign countries in Europe and America, and the study of non-profit organizations in our country should give more consideration to China's actual situation, including the formation of non-profit organization, the development of specific social environment, etc.

According to the above point of view, we can summarize the basic concepts and features of nonprofit organizations in China: non-profit organization refers to all groups except the government and enterprises which have the qualifications of a legal person to carry out public welfare activities. Nonprofit organizations are not-for-profit independent civil society organizations whose earnings are not allocated, and which enjoy the state preferential tax treatment. NPOs are dedicated to improving people's living standards and promote social harmony.

Reputation

Organizational reputation is an evaluation to the organization recognized by the outside world, resulting in the external understanding and judgments on organizational behavior. This

understanding and judgments exchange and disseminate, and thus form a relatively fixed evaluation and recognition. It can be said that reputation can be taken as an invisible shadow, good or bad, high or low along with the organization's whole "life". Even after the demise of the organization, it may will continue to have an impact. The impact is not only on the organization itself, but also on the society. Thus, the American scholar Davis Young said: " a good reputation is critical for any one solid organization which wants to get long-lasting success, while reputation management is a valuable industry."

NPO reputation crisis

Nonprofit organization's reputation crisis is potential adverse events with a large uncertainty, and this event and its consequences could have a negative impact on the organization and the organization's reputation, which severely damage the organization's image in society. Reputation is the root for existence of a non-profit organization. In recent years, the public increasingly has inclined to rely on non-profit organizations to solve social problems, which largely refers to its efficient management and human services. The increasing input of the nonprofit organization is the value identification. Of course, with more expectations. NPO once has seen its reputation crisis, then it causes greater psychological gap to the public.

THE REPUTATION CRISIS MECHANISM OF NPO

Like any organization, the reputation crisis mechanism of NPO is inseparable from the interaction of internal and external factors of the organization as shown in Figure 1. After a series of case studies NPO reputation crisis, it can be found that these organizations have reputation crisis mostly because of the following two reasons: the first is internal organizational reasons, mainly in lack of funds, lack of qualified personnel, imperfect governance structure, inappropriate rules and regulations, the weak sense of mission, lack of self-consciousness; the second is external organizational reasons, mainly in economic underdevelopment, order and economic instability, lack of the basic law, the imperfect accountability mechanism, the over interference of the government, inadequate in governmental supporting, and ineffective external supervision.

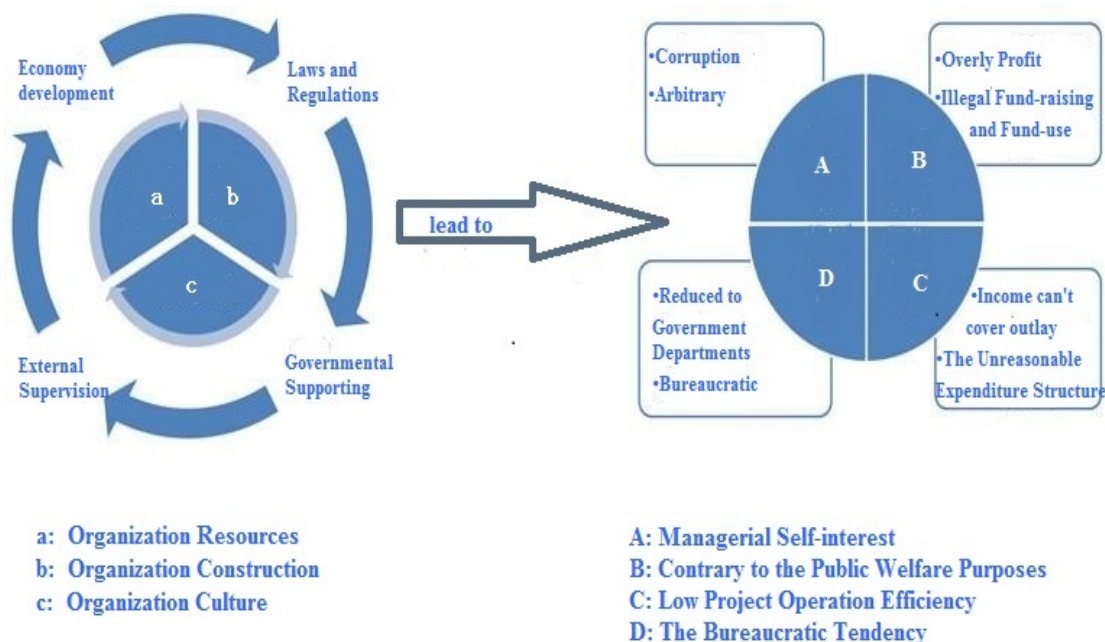


Figure 1 : The reputation crisis mechanism of NPO

Internal organizational reasons

Internal reasons is the direct cause of the reputation crisis mechanism of NPO. If there is a problem within an organization, it is bound to affect the normal operation of an organization, and also makes organizational behavior nonstandard^[3]. Through the induction non-profit organization reputation crisis case occurred in recent years, it can be found that the main internal reasons of the non-profit organization reputation crisis are three main types as shown in Figure 2: lack of organizational resources, imperfect organization construction organization, and insufficient organizational culture. These three aspects reflect an organization deficiencies in aspects of personnel, funding, governance structure, rules and regulations, organizational culture and others.

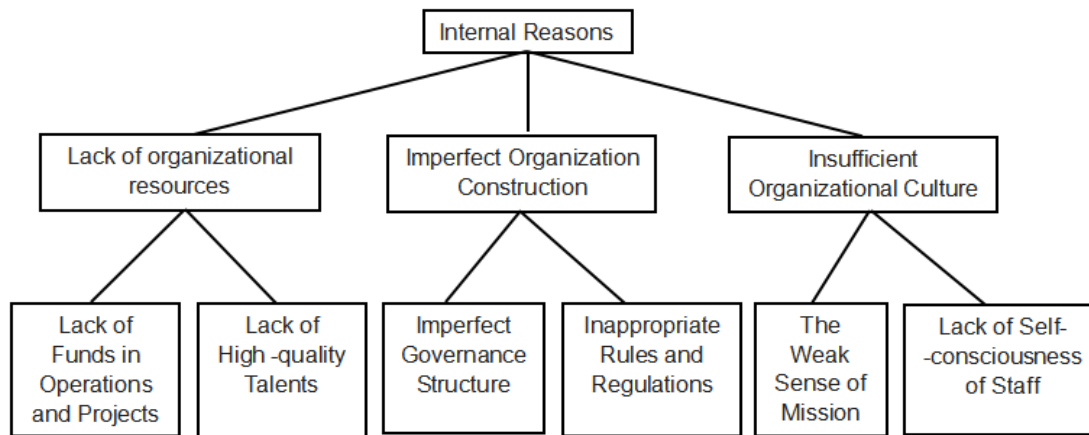


Figure 2 : Internal organizational reasons

Lack of organizational resources

Organizational resources are blood and tissue for the survive and development of an organization. Without adequate support resources, organizations can not improve their own construction, providing high quality goods and services, which will lead that the organization is not able to form sufficient capacity to prevent and reduce the reputation crisis. The shortage organizational resources leads to non-profit organizations reputation crisis resources mainly for two aspects: lack of funds in operations and projects and lack of high-quality talents.

Lack of funds in operations and projects

Professor Salamon named the phenomenon that the huge gap between the required expenditures for the nonprofit activity and the raised resources by non-profit organizations as insufficient charity. Although the funding issue is the common problems faced by the non-profit organizations in all countries, according to statistics, "[4]In the UK, there are a total of 186,000 registered charities, with total assets amounting to approximately 70 billion pounds, and annual revenues of over 10 billion pounds." By comparison, China's non-profit organizations tend to shortage of funds, mainly because there is no good fundraising ideas, and fundraising methods are not flexible enough with fundraising narrow channels.

An related survey conveyed by NGO Institute of Tsinghua University, shows that lack of funds is a more serious problem faced by our non-profit organization. In China, 41.4 percent of non-profit organizations face the problem of lack of funds, and a small number of organizations has come to unsustainable point due to lack of funds, which is worrying. Because once a NPO lack of funds, it inevitably wants to broaden sources of income and reduce expenditure. "Broaden sources of income " refers to looking for more fundraising channels, making it easy to go against "non-profit" purposes, and NPOs more engage in profit-making business, and some even engage in high-risk investment activities, which is a serious violation of donors' original intention "charitable contributions". "Reduce expenditure" refers to save money, especially to save the project funding. This will result in reduced expenditures of nonprofit organizations, which causes non-adequate public services provided to

beneficiaries, beneficiary groups plummeted, and will inevitably reduce the quality of service-for-profit organization. Finally, it will lead to non-profit organizations image plummeted in the public mind.

Lack of high-quality talents

First, members generally serve double duty. The major principals of NPO are mostly part-time, that is to say, a leader of NPO also serves as a leading government officials and other duties. With the increasing scale of nonprofit organizations, and more and more nonprofit activities, leaders may not be able to handle dual identity, which may hinder the improvement of the ability of nonprofit organizations.

The second is the lack of professionals. Most of the members of nonprofit organizations is incompetence. The low ability of nonprofit organizations mainly because of the low overall level of leadership. And for nonprofit business, non-profit organization's ability to secure more resources to the sustainable development of society depends on the level of its activity.

Imperfect organization construction

The imperfect organization construction is mainly manifested as imperfect governance structure, and inappropriate rules and regulations. The imperfect organization construction of NPO can lead disorder and confusion of the operation and ultimately the reputation of the crisis is inevitable.

Imperfect governance structure

Unlike for-profit organizations, non-profit organizations can not completely control its assets. Governance structure of many nonprofit organizations are imperfect in China: either there is no Council or the Council is a rubber stamp^[5,6], and major decisions are decided by a few leaders and competent departments; although some non-profit organizations establish board of directors, and the board of supervisors, they exist in name only and do not play the role, and the internal supervision for the management of non-profit organization layer on their own supervision, it is easy to form the "insider collusion"; Some grassroots organization is autocratic leadership by an individual. All these result in the low service level, management confusion and disorder and organization operation corruption.

Inappropriate rules and regulations

Inappropriate rules and regulations is mainly reflected that there are mistakes in the formulation and Implementation of the financial system, the information disclosure system and the performance appraisal system.

From the information disclosure system, the key issue of the information disclosure of NPOs face is disclosure underpowered. In addition, due to the lack of resources and imperfect construction organizations, nonprofit organizations do not have enough intrinsic motivation to make it more transparent. The opaque organization itself is easy to become corruption and darkness^[5,6]. From the performance appraisal system, nowadays many nonprofit organizations performance appraisal systems are often regarded utilitarian, efficiency as the main evaluation indicators. The mere use of costs, benefits, and other indicators to measure whether achieve organizational goals, to a certain extent is not feasible. But exactly what kind of indicators to assess the performance of non-profit organizations are still many obstacles, which makes inevitably more flaws in the system of assessment in many countries, resulting in inefficient and even corruption.

Insufficient organizational culture

Insufficient organizational culture mainly refers to the weak sense of mission of staff and lack of self-consciousness of staff. Especially in this particular organizational form of NPO, Organization profits cannot be used for distribution, which makes the basic constraint of the members of the nonprofit organization is the sense of mission and self-consciousness.

As is known to all, staff of NPO in the west are often out of social responsibility and self-realization to engage in nonprofit organizations. But in our country, nonprofit organizations are mostly

separated out from the original system of government, occupying a career preparation and enjoying high welfare and social status. Thus, in staff eyes, the work is more out of survival. Based on this starting point, the staff of nonprofit organizations disregard for the organization's mission and can not go to a more profound understanding and strive to achieve it. Organization members are most closely a group of the non-profit organizations, but members do not trust the organization's mission will lead to a risk of crisis. They one-sided pursuit of economic interests, resulting in failure of such NPO the inherent power "volunteer seeking to public service," which is also the subjective reasons leading to produce reputation crisis of non-profit organizations.

Countermeasure analysis

In response to these problems, this paper puts forward some countermeasures as follows:

Governments should be charged a separate budget of NPO department, taking it as a daily project of fiscal expenditure. Each region according to the number of non-profit organizations and scale budgets, explicitly assign the appropriate amount of and purpose of funds to ensure the correctness of the use of funds.

NPO should improve the organization construction and build a core control department, and appoint an independent personnel department staff positions, so as to achieve a person a job, and ensure that non-profit organizations have the ultimate control of the operations.

NPO changes its nature to build organizational culture system which can guide the organization staff to strengthen the pursuit of social responsibility awareness and self-worth, then achieve that voluntary action promote public welfare.

External organizational reasons

The survival and development of any organizational change are closely related and external environment. Considering China's national conditions and the special social environment of non-profit organizations to generate, and develop, it has great significance in the enhance analysis of the reputation crisis mechanism of NPO. This paper mainly considers the four most important and most common external causes: the economic development, laws and regulations, government support, external regulation as shown in Figure 3, to analyze the external catalytic factor for our nonprofit organization's reputation crisis.

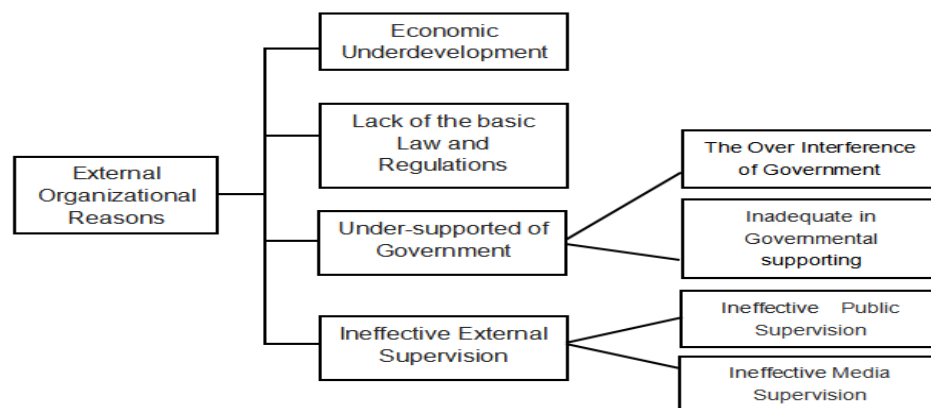


Figure 3 : External organizational reasons

Economic underdevelopment

Economic periodic fluctuation also affects the non-profit organizations' financial and operating environment. In recent years, the worldwide public welfare organization becomes expansion, though, the use and handling of funds is still the nations welfare organizations unresolved issues. Especially after the 2008 financial crisis, many for-profit businesses have been closing down, and many

workers have been unemployed, let alone the NPOs which accept the donation as fundamental to the survival.

Effects of cyclical fluctuations brought to the non-profit organization is enormous. During economic prosperity, there is more social idle funds and the public are confident in the future, making more financing channels of nonprofit organizations and financing more efficiency. During economic downturn, not only the government and companies are a shortage of funds, but also the community is full of worries about the future, which generate challenges for the existence and development of a non-profit organization. An important aspect of "voluntary failure" of public organizations is a shortage of funds. In addition, public interest organizations often generate fierce competition because of limited resources, which is an important reason for the crisis of public organizations. Furthermore, the development of China's current market economy is not perfect, and the market does not regulatory, so that the definition of non-profit of NPO is vague, which inevitably appears "profit" tendencies.

Lack of the basic law and regulations

At present, Specification of main legal non-profit organizations in China includes "Regulations on the registration and administration of social organizations", "Provisional Regulations on the registration of private non enterprise units", and "Foundation management approach", these three laws have no such standards on financial and taxation, income and expenses management, human resources management, fundraising and donor policies.

In addition, China's current legal system of non-profit organizations lack effective legal regulations in terms of government assessment, the financial system, third-party assessment, accountability system, as well as fair competition between non-profit organizations and profit organizations and non-profit organizations themselves, which is easy to produce dishonest behavior. This is not conducive to the growth and cultivation of non-profit organizations, and is open to abuse.

Under-supported of government the over interference of government

Many of the non-profit organization's resources mainly come from the government, and in all aspects of the organization and management system are dependent on the government, so NPO can not achieve self-management. The idea of Over-reliance of employees makes NPO lack voluntary and initiative, and is no awareness of prevention of the reputation crisis. Once the reputation crisis symptoms occur, NPOs are not alert enough, and when that moment that reputation crisis really happened, NPOs do not have enough capacity to response, which will only make the organization's reputation plummeted more.

Inadequate in governmental supporting

First, the funding of the investment is not enough. In government's fiscal policy, there is no specific financial support for nonprofit organizations, namely the lack of dedicated leadership and system security, so much of the funds are a temporary investment.

Second, preferential tax policies is not enough. Today, our country has not been able to establish a dedicated tax system for the non-profit organization. China's current non-profit organization for tax incentives are mainly include income tax with limited scope and without implementation details.

Ineffective external supervision

Ineffective public supervision

The public can exercise their right of supervising the implementation of non-profit organizations, understanding, participating in the activities of nonprofit organizations. However, the public long-term in China are weak awareness of their right to supervision and do not have a very strong willingness to take the initiative to oversight of non-profit organizations.

The recipients of NPO are mostly vulnerable groups, even if NPOs behaviors damage their interests, they can not take appropriate safeguard measures. Nonprofit organizations also lack of effective ways of public participation, leading to information asymmetry between non-profit organizations and public, which is likely to cause reputational crisis.

Ineffective media supervision

Our media and public opinion often only reports with positive propaganda for non-profit organizations, so the message to the community are often not comprehensive, and reliability^[7,8]. Moreover, As an extension of government supervision departments, China's media organizations oversight functions can not be effectively carried out. Media ineffective oversight embolden non-profit organizations, making it prone to illegal activities.

Countermeasure analysis

(1) According to the status quo of a shortage of funds for non-profit organizations, and snatching the limited resources, NPO should maximize to fight for social resources, and create a universal public good atmosphere on the premise of improving organizational system.

(2) The current law does not have clearly related provisions in the financial, human resources of the legal system, so that related sections should timely enacting and improving rules and regulations and add special section of non-profit organizations in the constitution. Then, they can improve laws and regulations to avoid acts of dishonesty in financial and any ulterior motive loopholes.

(3) Government should make the media truly neutral, being an independent third-party monitoring system, which can take the matter on its merits. The influence of the media guides the correct direction of public opinion.

CONCLUSION

The development of the non-profit organization in China is in its infancy, and is still lack of sufficient capacity to prevent and respond to the reputation crisis of NPO due to lack of organizational resources, and culture and construction, and is also easier to generate serious reputation crisis, such as managerial self-interest, contrary to the public welfare purposes, low project operation efficiency and the bureaucratic tendency etc. due to external economy, legal environment and the lack of government support and external oversight. Kang Xiaoguang, a famous scholar of nonprofit organizations, has pointed out the presence problem exists in the NPO in China that "There is too much temptation, too many loopholes, too many opportunities, while the human nature is so fragile."^[9-10].

However, we should not negatively view the development of non-profit organizations due to these deficiencies or vulnerabilities, or "knock NPO down at one stroke". The development of any organization and even the whole society is a process of continuous improvement, improve the organizational system, improve organizational culture, improve the organizational staff responsibilities and in the process of continuous improvement to ensure the healthy development of social non-profit organizations and human happiness.

ACKNOWLEDGEMENTS

We want to express our gratitude to visiting professor, PhD Feng Junwen, for being most helpful with this paper. And this work is supported by the Natural Science Foundation of China (No.71071003), Humanities and Social Sciences Planning Foundation of Ministry of Education (No. 10YJA630031).

REFERENCES

- [1] Jia Xijing; Foreign NPOs and Public Welfare[M]. China Legal Publishing House, 5, 321-350 (2003).

- [2] Zhou Meifang; NPO theory and the governance direction of NPO in China[J]. *Economic Review*, **8**, (2005).
- [3] Pan Xianghua; The Defect and the Construction of the Third Sector in the period Transformation in China[J]. *Journal of Public Management*, 78-82 (2005).
- [4] Yang Tuan; America NPO management[J]. *China civil Affairs*, **10**, (1990).
- [5] Li Fang; The Establishment of NPO Credibility in China[J]. *Social Sciences Journal of Colleges of Shanxi*, 30-32 (2005).
- [6] Xiong Peiyun; Transparent Expels Darkness -- Interview with global anti-corruption organization of Africa Government Transparency International headquarters, (2004).
- [7] Deng Guosheng, NPO Evaluation[M]. Beijing:social sciences academic press (CHINA), **48**, (2001).
- [8] Zhou Zhiren, Chen Qingyun; Autonomy and heteronomy---A case study of supervision mechanism of the third departments[M]. Hang Zhou: Zhe Jiang People's Publishing House, **81**, (1999).
- [9] Wang Ming; View and Prospect of Tsinghua NPO study[J]. *Chinese Public Administration*, **3**, 59-61 (2003).
- [10] Kang Xiaoguang; NGO Poverty Alleviation Researches[M]. China Economic Publishing House, **2**, (2001).
- [11] Guo Yuting, Xu Shandeng; To Deal with the Trust Crisis of NPO. *Consume Guide*, 25-26 (2009).