

The Changes in the Third Sector-Government Relationship under New Public Management in Japan: Towards Strategic Approaches to Contractual Relationship

Ichiro Tsukamoto

Professor of Public Management
School of Business Administration
Meiji University
1-1 Kanda-Surugadai, Chiyoda-ku, Tokyo 101-8301, Japan
Email: tsukamoi@kisc.meiji.ac.jp

December 10-11, 2008

**The International Workshop “Changing socio-economic regime and local governance: new
designs for social inclusion ” in Tokyo**

This is a draft copy. Please do not quote without authors' permission.

Introduction:

This paper examines the impact of current market oriented public service reforms on the third sector organizations(TSOs)-government relationship at local level in Japan and the potential for strategic approaches to TSOs-government relationship from the perspective of organizational change. In recent years, an increasing amount of attention has been paid to the involvement of Japanese TSOs in the provision of public services and to their co-operation with local governments under such public service reforms.

More recently, public service reforms at the national and local levels have been driven by the more market oriented “new public management” (NPM) regime through the introduction of the “Market Test” and the “Designated Manager System.” The latter is a newly introduced contracting system in the field of management and service delivery of local government owned public facilities. The facilities include public halls, citizen and community activities support centers, museums, parks and other facilities providing cultural and welfare services. The “Designated Manager System” is also closely related to NPM oriented reforms. Essentially, it tends to be regarded as a financial retrenchment scheme among most local authorities. Under the new contract regime, the third sector contractors tend to be increasingly commercialized and still suffer from the institutional pressures they had under traditional contractual relationships. Even local intermediary organizations or infrastructure organizations which have advocacy and networking functions (Tsukamoto and Nishimura, 2006; 2008) and play a key role in providing the infrastructure for voluntary and community action (Osborne, 1999) have been engaged in management of public facilities such as voluntary support centers under the new contractual system.

However, in our view, this new contracting system has the potential to promote active participation of both citizens and users in the production of public services. Particularly for community based facilities that promote community and citizen activities, the transformation from local government management to other community based TSO management seems to improve the participative approach to the delivery of public services. Private contractors, including TSOs, can exercise more discretionary power over the management of the facilities under the new contracting system than they could under traditional contractual relationships.

Therefore, this paper looks at cases of local intermediary organizations from the perspective of their potential to promote active civic participation by utilizing new contracting systems. Intermediary organizations have been increasingly commissioned to manage community support centers owned by local governments under the “Designated Manager System.” Some local intermediary organizations tend to be too dependent on government funding and suffer from “institutional isomorphic pressure” (DiMaggio and Powell, 1991) and “commercialization.” Nevertheless, in our hypothesis, local intermediary organizations can play a crucial role in creating social and horizontal networks. They can also promote active and participative civic activities by mobilizing their professional functions and “hybrid” resources. “Hybrid” character and “hybridization” of intermediary organizations can provide them with more independent and strategic approaches to the organizational environment, in particular, the “organizational field.”

The purpose of this paper, therefore, is to investigate current organizational changes, such as

“institutionalization,” “commercialization” and “hybridization” of local TSOs, under public service reforms. It also investigates the potential for independent and strategic approaches to organizational fields and the delivery of public services. The research methods used were postal surveys and intensive case studies.

The analysis in this paper is largely based on the research findings of our previous study which was presented at the “European Group of Public Administration (EGPA) Annual Conference” (Tsukamoto and Nishimura, 2007). In this study, however, we conducted an additional case study of a local intermediary organization and we seek more theoretical analysis.

Conceptual Framework: Institutionalization, Commercialization, Hybridization and Co-production

Current organizational change in TSOs, including intermediary organizations, can be characterized by “institutionalization,” “commercialization” and “hybridization.”

According to Scott and Davis (2007: 260), “institutionalization” can be defined as “the process by which actions are repeated and given similar meaning by self and others.” The frequently quoted term “institutional isomorphism” (DiMaggio and Powell, 1991) is highly useful to describe TSOs’ organizational changes that tend to be embedded within government dominated institutional frameworks. They identify three mechanisms through which institutional isomorphic change occurs: “coercive isomorphism,” “mimetic isomorphism” and “normative isomorphism” (DiMaggio and Powell, 1991:67).¹

In relation to the notion of “institutional isomorphism,” DiMaggio and Powell refer to the “organizational field” as “those organizations that, in the aggregate, constitute a recognized area of institutional life: key suppliers, resource and product consumers, regulatory agencies, and other organizations that produce similar services or products” (DiMaggio and Powell, 1991: 64-65). The mechanism inducing isomorphism among structural features operates most strongly within delimited “organizational fields.” The neo-institutional organization theorist’s concept of “organizational field” seems helpful in understanding the organizational context of the contractual relationship.

The term “commercialization” is a more ambiguous term, but it is often used to describe the tendency of TSOs to be dependent on commercial activities such as sales of goods and services (Weisbrod ed., 1998). Based on the form of government contract and the “quasi-market,” these activities can include service delivery activities. Dees indicates that TSOs are beginning to look for ways to make their core programs for mission achievement less reliant on donations and grants and more reliant on fees and contracts (1994: 138). In Japan, third sector providers also increasingly compete against each other and with for-profit providers under the current government competitive contracting system. In the case of the “Designated Manager System,” contractors can receive service fees in addition to the annual fixed commissions paid by local governments. Under “commercialization,” many TSOs focus less on their mission and more on the marketing and sales of their goods. “Commercialization” of the third sector is a product of the increasing focus on the entrepreneurial function within the sector (Frumkin, 2002: 173). The current increasing interests in

social entrepreneurship and social enterprise can also be situated in this context. However, social entrepreneurs set out with an explicit social mission, and the best measure of their success is not how much profit they make, but rather the extent to which they create social value (Dees, Emerson and Economy, 2001:4-5).

TSOs can seek more independent and strategic approaches to “organizational fields” and to the delivery of public services. In our hypothesis, such strategic approaches to the organizational environment can be situated in the context of “hybridization.” According to Evers and Laville, TSOs can be interpreted as being a hybridization among the following three poles of the economy: the market economy, the non-market economy and the non-monetary economy. Evers and Laville also indicate that the nonprofit sector is not a defined, clear-cut sector but is considered more as a component of the economy based on solidarity and a hybridization of different economic principles (Evers and Laville eds., 2004: 20). Evers and Laville mention that TSOs have a hybrid and “intermediary” nature. They focus on the “intermediary” space in which TSOs exist where “there is no clear line of demarcation between, on the one hand, the market place, the political arena, community and state organizations, and on the other, the third sector” (Evers and Laville eds., 2004: 36). In their view, TSOs may become more commercial, more similar to state organizations, or find ways to keep their specificity by intermediating successfully between the influences that come simultaneously from other sectors of society (Evers and Laville eds., 2004: 36).

The concept of “hybridization” seems to be quite helpful for understanding the behavior of nonprofit organizations that have a high intermediary nature. Thinking in terms of “hybridization” in organizational change can make one aware of the potential for local intermediary organizations’ more strategic approaches to their organizational environment. Thus, this paper examines the state of local intermediary organizations in particular, from the perspective of their “institutionalization,” “commercialization” and “hybridization.”

In addition to this conceptual framework, the term “co-production” can be helpful for understanding the current emerging relationship between TSOs and the delivery of public services beyond the traditional contractual relationship. Pestoff and Brandsen (2008: 5) identify the following different types of co-operation in the delivery of public services: “co-governance”, “co-management” and “co-production.” According to their definitions, “co-governance” refers to an arrangement in which the third sector participates in the planning and delivery of public services; “co-management” refers to an arrangement in which TSOs produce services in collaboration with the state; and finally, “co-production,” in the restricted use of the term, refers to an arrangement where citizens produce their own services, at least in part. The operation of a local intermediary organization can range across these three types. Our previous study indicates that local intermediary organizations can build not only “co-management” but also “co-governance”-based partnerships with local governments by exercising their political functions (Tsukamoto and Nishimura, 2007). This paper additionally examines the potential for “co-production” through the activities of local intermediary organizations, although such new arrangements seem to be underdeveloped. In our hypothesis, the hybrid and intermediary character of nonprofit organizations can be relevant to the potential for “co-production” in the delivery of

public services.

Research method

As mentioned above, our analysis in this paper is based on our findings from our postal survey and case studies conducted for our previous study on the functions of local intermediary organizations (Tsukamoto and Nishimura, 2007) and on an additional case study conducted in 2008.

Quantitative research was conducted in August 2007 through a national postal survey of 70 intermediary organizations with NPO *hōjin* legal status. The objective of this postal survey was to examine the state of intermediary organizations, particularly their different functions under contractual relationships. Our study was conducted in collaboration with the NPO Support Center, which is a national intermediary organization that collects information about national intermediary organizations. Our data on nonprofit intermediary organizations is based on the database of the NPO Support Center which includes 70 intermediary organizations with NPO *hōjin* legal status in Japan. The number of total respondents was 45, and the rate of the response was 64.3 percent.

Case studies were based on intensive interviews with founding leaders of three local nonprofit intermediary organizations located in Sendai, Kyoto and Morioka. The organizations are regarded as leading intermediary organizations that are engaged both in political functions, such as advocacy activities, and in the management of government facilities. The case studies examine their organizational and inter-organizational changes from the perspective of “institutionalization,” “commercialization” and “hybridization,” and the dilemma between political and service delivery functions, and the potential for strategic approaches to “co-production.” Both of the case studies (Sendai and Kyoto) were conducted three times (2004, 2006 and 2007). Another case study (Morioka) was also conducted twice (2006 and 2008). All three organizations maintain the economic and organizational growth they experienced at their start by strategically adopting new contractual regimes such as the “Designated Manager System,” and they are keen to promote civic activities.

Overview of the current nonprofit sector in Japan

The third sector in Japan has moved toward a new stage since the late 1990s that is characterized by a radical increase of new types of TSOs. The emergence of this new third sector movement has been influenced particularly by growing public interest in voluntary activities after the Hanshin-Awaji Earthquake of 1995 and the enactment of the Law to Promote Specified Nonprofit Activities (the NPO Law) of 1998. The NPO law created a new category of incorporated organizations for nonprofit and voluntary activities and enabled civic groups to acquire a legal personality known as the Specified Nonprofit Corporation (NPO *hōjin*) (Pekkanen, 2003). An NPO *hōjin* is much easier to incorporate than a traditional nonprofit corporation because there are fewer government regulations. According to statistics from the Cabinet Office, around 36,000

nonprofits with the legal status of NPO hōjin were in operation in the entire country at the end of October 2008. This figure shows the rapid growth of this new type of TSOs in the last eight years since enactment of the NPO Law.

Japan has a long history of TSOs. During the early Meiji Era, traditional nonprofit corporations, known as public interest corporations or koueki hōjin, were institutionalized by the enactment of the Civil Law of 1897. Public interest corporations are further categorized into two types: shadan hōjin (incorporated association) and zaidan hōjin (incorporated foundation).² Other types of nonprofit corporations, such as shakai fukushi hōjin (social welfare corporation), gakkō hōjin (private school corporation), shūkyō hōjin (religious corporation) and others are institutionalized by different laws. The total number of these traditional nonprofit organizations is currently estimated to be over 200,000. After incorporation, traditional nonprofit organizations are required to follow strict regulations and be supervised by relevant authorities who also have discretionary powers. Thus, civic and grass root groups are reluctant to be incorporated in these traditional legal forms. Such reluctance and the demand for a more civic oriented nonprofit form led to the enactment of the NPO Law.

According to the national survey of 2005 conducted by the government research institute on Specified Nonprofit Corporations (NPO hōjin) (Keizai Sangyo Kenkyujo, 2005), 64.3 percent of their total income came from earned income (including government contracts), 5.6 percent from membership fees, 9.5 percent from government and private grants, 7.7 percent from donations, and 12.9 percent from other sources. The high percentage of earned income shows the tendency toward “commercialization” of nonprofit organizations in Japan. With regard to this earned income, 50.4 percent came from the long term care insurance, 15.6 percent from government contracts, 28.7 percent from income generated by their independent businesses in public and business sectors (private payments for dues and services), and 5.4 percent from business contracts (contracts with private companies). In interpreting these data, government funding, such as long term care insurance and contracts, made up a large part of the total earned income (66%). This means that government funding plays a significant role in promoting the “commercialization” of nonprofit organizations in Japan. In terms of nonprofits which provide health and social services, this tendency was more remarkable. 74.2 percent of their total revenue came from earned income, which was much higher than the average (64.3%). Furthermore, of the total earned income, 72.5 percent came from government funding (65.9 percent from the long term care insurance system and 6.6 percent from government contracts).

The Emergence of the New Contractual Regime and Local Partnerships

Due to the changing needs of government, most local governments have been keen to contract out their services to local TSOs. Under the current local government reforms, local governments seek out the NPO hōjin type of TSO when looking to contract out their services. Some local governments have sought collaborations, which are occasionally called partnerships, with local TSOs to solve local issues and improve local public services. According to our national survey on

local third sector-government partnerships (Open Research Center Project, 2005), approximately 80 percent of municipalities have been engaged in partnerships with TSOs. In most cases, these partnerships are with the NPO hōjin type of TSO or unincorporated community groups and not with the traditional types of TSOs. According to a more recent national survey of 894 local authorities performed by the government research institute (Keizai Sangyo Kenkyujo, 2007), 51 percent of local authorities have contracted out their services to TSOs and 45.8 percent of local authorities have not. One hundred percent of both prefectural governments (n=28) and large cities' municipal governments (n=32) have contracted out to TSOs.

In reality, most of the collaborations are implemented in the form of contracts and also based on the top-down approaches led by local governments (Tsukamoto and Nishimura, 2006;2008). TSOs seem to be embedded in such a contracting regime and reliant on government funding. Furthermore, under the contracting regime, TSOs come to follow the institutional frameworks created primarily by government. In light of most of the local government partnership policies, they are characterized by a lack of strategic perspective. According to the above our survey, over 55 percent of the respondents didn't have the basic policy or rules related to the systematic promotion of partnerships. Only 14 percent of the respondents introduced formal performance assessment system in the partnership. Furthermore, most of partnerships were concentrated into the implementation process that was the sphere of the service delivery not policy formulation. In terms of the equality of the relationship, only 38 percent of the respondents consulted with individual TSOs when they drew up the document regarding the content of the contract or relationship. On the other hand, 57 percent of the respondents didn't provide TSOs with such opportunities, although the consultation and dialogue processes seem to be indispensable to create and preserve trust between both sectors.

Furthermore, after the revision of the Local Government Law of 2003, most local governments have outsourced management functions of the public facilities they own, such as museums, public halls, sports centers and volunteering support centers, to private nonprofits and businesses. Before the revision, private enterprises could not manage these public facilities except those local governments or private corporations that were founded with shares from governments. After the enactment of the revised law, local governments are legally forced to leave the management of local public facilities to other corporations called "Designated Managers" or to run them themselves. Local councils are required to stipulate the basic principles and designating procedures of the system in the ordinance.

According to more recent 2006 government statistics (Ministry of Internal Affairs and Communications), "Designated Manager Systems" were introduced in 61,565 government facilities in Japan. In terms of allocation among different private and public corporations, just 11.0 percent of total facilities were contracted out to private companies, 36.2 percent to traditional nonprofit corporations with strict government control, 50.0 percent to government or government institutions, just 1.7 percent to NPO hōjin and 5.6 percent to other corporations. The new contracting system seems to have little effect on TSOs. However, in some specific areas, particularly nonprofit intermediary organizations, being named "Designated Manager" is associated with their survival.

Under this new contracting system formed under the revised law, private contractors can have more discretionary power in the management of the facilities. For example, the private contractors can receive, as their own income, fees for services if they have formal agreements with local governments. In addition, the terms of these contracts tend to be relatively longer than traditional contracts. For example, the contractors can exchange 5-year term contracts with local governments. The new system seems to have a positive effect on financial stability and can be regarded as a financial retrenchment scheme even though the “ownership” and ultimate control remains in the hands of the local government.

Many TSOs are interested in managing government facilities for their survival. The activities of third sector contractors seem to become part of government policy and be generally constrained by its regulations. Nevertheless, the devolution of control of public facilities from government to TSOs seems to provide nonprofits with opportunities for promoting more active civic participation. In other words, such joint control of public facilities by government and civic organizations has the potential to create new co-operation or “co-production” in the delivery of public services.

Emerging and changing intermediary organizations under new public-private partnerships

There seems to be no single operational definition of intermediary organizations. However, from an international perspective, the term is generally understood as the following (Anheier and List, 2005:137):

Intermediary organizations play variety roles in the non-profit sector; including engaging, convening and supporting critical stakeholders: promoting quality standards and accountability; brokering and leveraging resources: and advocating for effective policies.

By this definition, intermediary organizations include support centers, sector-serving organizations, foundations, and university-based nonprofit research centers. Foundations are the most visible organizations in the United States. Sector-serving organizations such as “Independent Sector” share information on legislation, grant opportunities, social trends and research as they pertain to the interests of their members. They also assert the interests of their members in the legislative process (Van Til, 2005: 56). As such, intermediary organizations can be involved in advocating for effective policies. These intermediary organizations are occasionally called infrastructure organizations in the UK. Infrastructure organizations are expected to play key roles in building effective local partnerships such as “Local Compact” and “Local Strategic Partnership” and in providing support for organizational capacity. According to a UK government report, “The VCS (nonprofit sector) infrastructure provides support for organizational capacity, a voice for VCOs (nonprofits), and access to representation and policy making” (HM Treasury, 2002: 20). Thus, political activities, such as representation and advocacy, are regarded as key functions of intermediary organizations in both countries.

In the late 1990s, Japan was in the early stages of the emergence of intermediary organizations. At that time, some leading national intermediary organizations used advocacy and lobbying techniques to fill crucial roles in building new legal frameworks that promoted nonprofit and civic activities. In part, the enactment of the NPO Law of 1998 resulted from these political activities of

intermediary organizations.

Actually, since the late 1990s, intermediary organizations known as NPO centers or NPO support centers have been created by citizens in order to support and promote voluntary and nonprofit activities at the local and national levels. Alongside the emergence of these nonprofit intermediary organizations, local governments have been engaged in fostering nonprofit activities and in setting up facilities for the specific purpose of supporting voluntary and nonprofit activities. Such local government NPO support facilities or centers are in operation in most of the major municipalities and prefectures across Japan.

More recently, local governments have established government volunteering and nonprofit activities support centers. In most cases, local governments have founded government support centers and then contracted out their management to nonprofit intermediary organizations. The current administrative reforms have enhanced these trends and resulted in a nation-wide proliferation of government support centers. The management in the centers has been increasingly contracted out to non-government agencies.

A local intermediary organization can benefit from this new contractual relationship because it contributes to the organization's financial sustainability. However, the relationship also means that these intermediary organizations tend to be embedded within institutional frameworks regulated by governments, and the behavior of managers and workers can degenerate into being as bureaucratic as the behavior of government officials (Tsukamoto and Nishimura, 2006: 576). Weak connections with local nonprofits and lack of representation seem to strengthen such tendencies. Hence, these relationships with local governments tend to be increasingly individualistic. From the organizational field perspective, the excessive financial dependence on local governments and institutional isomorphic pressures (DiMaggio and Powell, 1991) from the institutional frameworks may result in cultural changes of nonprofit intermediary organizations themselves.

In our hypothesis, institutional pressure is crucial to organizational change, but organizations can deliberately change the institutional environment and organizational field with strategic approaches to the delivery of public services and co-operation with the public sector.

The data from a postal survey

According to our postal survey, 43.2 per cent of respondents are engaged in management of governmental volunteering or nonprofits support centers, and 56.8 of percent of them are not (**Table 1**). 18.0 per cent of respondents are engaged in management of these facilities in the form of the designated manager system. This result indicates that it has become common for intermediary organizations to be engaged in managing public facilities

Whether intermediary organizations are commissioned to manage governmental facilities or not is relevant to the distribution of the sizes of the annual income (**Table 2**). Examining the distribution of these annual income, in terms of the intermediary organizations with the management of public facilities, 22.2 per cent of respondents (highest frequency at the each scales) amounts to over 20 million yen (133,333 Euros) under 30 million yen (200,000 Euros), and 4.7 percent of them generate over 100 million yen (666,666 Euros) annually. By contrast, in terms of

the annual income of intermediary organizations without management of public facilities, 28.0 per cent (highest frequency at the each scales) amounts to over 10 million yen (66,666 Euros) under 20 million yen (133,333 Euros), and there are no respondents whose annual income is over 100 million yen. This result means that the management of public facilities is relevant to the income differences between intermediary organizations. Organizations with management of the public facilities tend to be financially larger than those without the management of them.

Examining the sources of income (**Table 3**), 53.1 per cent of the total income comes from the government contract and 10.9 percent (the second frequency) from self-generated earned income in total. In terms of intermediary organizations managing public facilities, this figure is much higher, namely 70.6 per cent of the total income comes from the government contract. By contrast, in intermediary organizations without management of public facilities cases, 41.3 per cent of the total income comes from the government contract. The result indicates that intermediary organizations tend to be financially reliant on government contractual funding. In the intermediary organizations with the management of the public facilities, this tendency is much more conspicuous than intermediary organizations without the management of them. In intermediary organizations cases, they tend to be more reliant on government grant or “social capital resources” (Bode, Evers and Shultz, 2005) such as donations although the both figures seem to be relatively low from the international comparison perspective.

In terms of functions of intermediary organizations (**Table 4**), the fact findings from the data are more complex. In total, main functions of intermediary organizations concentrate on the networking (16.3 per cent), consulting with professional knowledge (16.3 per cent) and advocacy (16.3 per cent).

Focusing on the differences between intermediary organization with and without the management of public facilities, the percentages related to political functions of intermediary organizations with the management of the public facilities are relatively lower than intermediary organizations without the management of the facilities. However, in terms of advocacy function, there is no significant difference between two types by contraries. More significantly, in the intermediary organizations with the management of the public facilities case, the percentage related to the function of developing networks between TSOs is higher than intermediary organizations without the management of public facilities. That is, most intermediary organizations which manage public facilities face the dilemma between the service delivery and political functions but tend to seek for the balance between the two different functions. Actually, some respondents which are engaged in managing governmental volunteering or nonprofits support centers refer to the both positive and negative impacts on these organizations in the descriptive answers on the questionnaire.

As following, they recognize the positive impacts.

- Expanding the networks between local nonprofits based on the spaces of the public facilities
- Understanding the local government policies and administrative systems
- Strengthening relationships with local governments
- Improving their professional knowledge and skill

- Increasing their income

The negative impacts are also recognized as following

- The less flexibility of businesses
- The dependence of the relationships on the personal discretions of government officers who can directly control the contracts
- The restrictions of TSOs' discretionary activities within the facility because of the ownership form (local government owns)
- The difficulties in innovation on the services
- The difficulties in distinctive and original activities as TSOs
- The less awareness of TSOs managing the facility because of the ownership form (people see the facility and its staff as a part of local authority.)

In summary, ambivalent aspects can be found in the involvement of intermediary organizations with government contracts, particularly in the management of these public facilities. Such involvement can contribute to the enhancement of their financial stability, their professional knowledge about policies and government systems and their networks between local TSOs. Interestingly, their political functions, such as networking and advocating, do not necessarily diminish even under contractual relationships. On the other hand, such intermediary organizations seem to face institutional and commercial pressures for survival. If intermediary organizations cannot strategically manage their organizational environment under the institutional environment controlled by contractual relationships, their innovative power and intrinsic potential can be restricted. In this situation, intermediary organizations seem to increasingly concentrate their functions on the service providing role under the “principal-agent” relationship, also known as “co-management,” rather than under “co-governance” or “co-production.”

We examine the potential for the strategic approach to the delivery of public services in the next section.

Case studies

All three intermediary organizations in our case studies are pure nonprofit intermediary organizations but are engaged in the management of government facilities. All organizations have been regarded as leading local intermediary organizations.

Case 1: Sendai-Miyagi NPO Center

Sendai-Miyagi NPO Center was established in 1999 as NPO hōjin based on four purposes: “To spread Messages for Necessity of NPOs, To Provide Support and Services to Empower TSOs, To Act as a Third Sector Political Think-Tank, and To Promote Partnership with the Business Sector to Create a New Civil Society in the 21st Century.” The Center began as a volunteer group, but after it was incorporated, it sought out the sustainable development of local TSOs, including their own organization, in collaboration with other sectors, such as statutory and business sectors.

The mission of the Center is to develop activities for TSOs in the Sendai, Miyagi area by

providing infrastructure and by promoting partnerships and collaborations between TSOs and local governments or private enterprises. The Sendai Miyagi NPO Center's activities are primarily in the City of Sendai and Miyagi Prefecture in the northeastern region of Japan. However, it is also engaged in nationwide activities, in particular advocacy activities including symposiums about specific topics, in collaboration with other national and local intermediary organizations.

The governance and organizational structure consists of over 200 members, an advisory committee and a board of directors. The board consists primarily of local business leaders, consultants and university faculty, but not many nonprofit leaders.

In fiscal year 2006 its annual income was approximately 109 million yen (726,666 Euros). The Center receives around 75 percent of its annual income from government contracts. In particular, the income generated from management of the government facility under the "Designated Manager System" amounts to approximately 60 percent. 15 percent of its annual income comes from other earned income, 2 percent from private grants, 2 percent from donations, and 1 percent from membership fees. The center employs 23 paid staff including six part-time workers.

The Center has different functions including advocacy activities, providing support for the services and management of TSOs, and network building. In recent years, the Center was commissioned under the "Designated Manager System" to manage the Sendai Civic Activities Support Center founded by the Sendai municipal government. The contract term under the system is three years. The Sendai-Miyagi NPO Center receives a fixed rate of commission from the municipal government, but it does not directly receive user fees. While it is legally allowed for contractors to charge user fees for their services and receive them directly under the designated manager system, the Sendai-Miyagi NPO Center has not done so because the local government may cut the rate of commission as an offset. In addition to the management of this government facility, the municipal government and a national government agency have contracted out other programs to the Center.

The Center seems to be highly dependent on government funding. However, the founding of the Sendai Civic Activities Support Center itself was partly the result of the Sendai-Miyagi NPO Center's advocacy activity which had requested that the municipal government set up the facility as infrastructure to help local TSOs. For this reason, it is not a simple "principal-agent" relationship. According to an executive director, "Sendai municipal government lacks the know-how about the facilitation of civic activities and the management of such facilities. So we can contribute to its effective management by promoting civic public benefit activities with our expertise." Furthermore, the Center has been engaged in formulating guidelines for local partnerships with local governments.

In addition to government contracts, the Center is engaged in collaboration with local business enterprises and the community. The Center founded the Supporting Resource Exchange System, including a community fund named the Min-Min Fund. The goal of the Supporting Resource Exchange System is to build the local infrastructure meant to strengthen nonprofit activities through the provision of monetary and non-monetary resources such as donations and redundant office furniture. The Center uses this system to help distribute such resources among citizens, businesses and TSOs. The Min-Min Fund, a community fund for collecting donations from

citizens and businesses, is a part of this system and promotes philanthropic culture and nonprofit activities.

In addition, the Center set up the NPO Information Library to enhance the transparency and accountability of TSOs. Local TSOs that receive resources from the exchange system are required to post their business account information through the library. As such, aside from forming partnerships with the government, the Center is independently engaged in promoting private and public partnerships in pursuit of strengthening nonprofit activities.

In terms of political functions, leaders of the Center were involved in the enactment of the NPO Law of 1998. After enactment, the Center has been engaged in lobbying activities and dialogue with local government councilors and government officers in order to make an impact on local policies from the nonprofit side. According to an executive director,

Japanese people tend to see ‘government’ as a public administrative system dominated by bureaucrats not a council or councilors. It is not good for us. We need to expand our influence on the policy formulation level. So we are engaged in dialogue with councilors and politicians in order to bring about radical changes.

Case 2: Kyoto NPO Center

Kyoto NPO Center was established in 1998 as a NPO hōjin in pursuit of creating a civil society led by citizens themselves. A graduate school student, who is an executive director now, played a leading role in setting up this intermediary organization. He was highly impacted by the emerging civic activities after the Hanshin-Awaji Earthquake of 1995 and decided to found a strong local intermediary organization in order to foster TSOs in the Kyoto area. Many local leaders, including a doctor, business leaders, academics and artists, cooperated to found the Center. Kyoto NPO Center classifies their activities into 4 main areas: 1) the enhancement of the infrastructure of TSOs through consultation, seminars, community finance, and information; 2) exchange and collaborations among governments, businesses and TSOs; 3) learning, training and research; and 4) the creation of civil society, which includes forums, advocacy, lobbying and supporting social enterprises. The Center sees itself as a local support center for TSOs and as a community think tank.

The governance and organizational structure includes the Center’s 20 members and a board of directors. The board includes community and business leaders and academics, but it does not include local nonprofit leaders.

Its annual income in fiscal year 2006 was 90 million yen (600,000 Euros). The center employs 19 paid staff, including part-time workers, and two volunteers. In terms of sources of the income, 62 percent comes from government contracts (entirely generated from the designated manager system), 11.3 percent from business contracts, 9.2 percent from private grants, 8.4 percent from other independent earned income, and 7.7 percent from donations (no membership fee). The financial structure of the center is highly dependent on government funding.

The center has been commissioned to manage Kyoto Municipal Civic Activities Support Center under the “Designated Manager System” since 2003. The support center provides information services, consulting, publishing support for brochures and reports (via a work room

equipped with computers and printers) and incubation services. The latter includes lending work booths, lockers and mailboxes, training services and coordination among activity groups.

As a result of being commissioned since 2003 to manage the Kyoto Municipal Civic Activities Support Center under the “Designated Manager System,” the Kyoto NPO Center benefits from more financial stability through its five year contract. However, the total fees for the five years have been fixed by the local government, so it is difficult for the Center to adjust the yearly fees even if there is an increase in users due to their effort. In addition, the Center cannot directly receive user fees as its own income. Any user fees go to the local government though the Kyoto NPO Center. Nevertheless, the Center can launch its own original programs, such as seminars for citizens and TSOs, through the Kyoto Municipal Civic Activities Support Center if the plan is recognized by the local government.

In terms of governance of the Kyoto Municipal Civic Activities Support Center, the Kyoto NPO Center has an independent steering committee for operating the facilities consisting of citizen users and academics. However, it is ultimately controlled and its performance is evaluated by the Kyoto municipal government. The Kyoto NPO Center seeks for more civic participation in the operation of the public facilities.

According to an executive director, there are both positive and negative aspects of managing government facilities under the “Designated Manager System.”

We can employ many staff here by this government contact. It is very important to employ paid and fulltime staff for intermediary organizations. The stable employment of the staff can bring about the synergetic effects within our organization.” On the other hand, “We had to spend lots of our manpower in managing the facility in the early stage, so we could not develop enough new programs. However, we try to enhance other independent businesses.

The Kyoto NPO Center has made efforts to create equal partnerships with the Kyoto municipal government regarding operation of the government facilities. The “partnership declaration” between the two parties is the product of the negotiations. This agreement is not legally binding, but it stipulates common rules, including the right of the NPO to consult with government regarding their contractual framework and accountability to citizens. The Center has also discussed personnel costs as a part of the government contract which could improve working conditions.

In recent years, the Kyoto NPO Center has been engaged in partnerships with the Kyoto prefectural government in pursuit of a “partnership based local government.” The governor has sympathy for partnerships. The Center has made an agreement with the Kyoto prefectural government regarding the mutual temporary transfer system for personnel development. This is the first system introduced between nonprofits and government except for existing internship programs in Japan.

In terms of its governance structure, the Kyoto NPO Center seems to lack the representation of membership organizations in the locality. In addition, inter-organizational networks with local nonprofits still remain underdeveloped. According to a chief executive director,

I cannot know at least one third of TSOs in City of Kyoto. TSOs have been radically

increasing, but most TSOs which set up recently seem to be different from social movement oriented TSOs founded in the late 1990s. We have begun to lose confidence in our representation.

In other words, recent nonprofits do not necessarily need the services of intermediary organizations.

Case 3: Iwate NPO Center

Iwate NPO Center was established in 2003 as an NPO hōjin in the City of Morioka in Iwate Prefecture. The Center's mission is to create a new public sphere through citizen power and to support civic activities. The Center's president, who was also one of the founders, used to work for a private insurance company, but he entered the nonprofit world because of his sympathies with social missions and businesses. His leadership style is entrepreneurial and innovative.

The Center's activities are classified into 4 main areas: 1) support for civic activities; 2) local regeneration such as green tourism and agriculture related business; 3) management of public facilities such as a public hall and a forest park; and 4) job training for youth and support for start-up community businesses and entrepreneurs.

The governance and organizational structure of the Center includes 22 members and a board of directors. Its board members include citizens, business leaders and academics: leaders of local nonprofit organizations are not included. A steering committee is in charge of managing a public hall that the Center is commissioned by the local authority to manage. Citizens sit on the steering committee as a way to ensure civic participation in the management of the hall.

The Center's annual income in fiscal year 2005 was 115 million yen (766,666 Euros). Eighty percent of its income comes from government contracts (60 percent of this was generated from the "Designated Manager System"), 10 percent from earned income except government contracts, 5 percent from government grants, 5 percent from private grants, 0.3 percent from donations and 0.3 percent from membership fees. In 2006, the Center employed 42 workers, including 9 fulltime workers and 33 part-time workers. Compared with other local intermediary organizations, the Center employs much more staff. Six volunteers participate in its activities.

The public hall managed by the Center is Iwate Public Hall. It is owned by Iwate Prefectural government, but it has been managed by the Center under the "Designated Manager System" since 2005. In fiscal year 2005, the total earned income generated from this contract with the prefectural government was 38 million yen. Fifty-four percent of its income came from local government as commission and 46 percent came from user fees (the charge for conference and meeting rooms, halls and other facilities). The Center can receive the user fees directly, unlike the Sendai-Miyagi NPO Center and the Kyoto NPO Center. The cap on user fees of the public hall is regulated by local government. However, the Center as a contractor can set the price flexibly, as long as it stays under the cap. The term of the contract is three years, which is longer than a traditional government contract. The Center can independently design and hold events at the public hall as long as they are related to the mission of the public hall and the steering committee and citizen users agree to the plans. Therefore, the Center has voluntarily held an art festival and other cultural events at the public hall in order to promote active citizen participation in artistic and cultural activities. In

addition, the Center has held workshops with local TSO leaders and government officials about the “Designated Manager System.” These workshops also allow leaders to learn about each other and share information and common issues.

In terms of inter-organizational networks, Iwate NPO Center founded the Iwate NPO Intermediary Network with eleven other local nonprofit intermediary organizations in the Iwate area. By creating this network, the Center has played a leading role in setting up new local intermediary organizations and has created an inter-organizational network for supporting each other. The Center has supported the creation of other networks of specialist intermediary organizations, such as networks for different fields of welfare services (Iwate Community Welfare Network), green tourism (Iwate Green Tourism Network) and catering services. The Center aims to generate community businesses (social enterprises) from these networks. Actually, some community businesses have already spawned from these networks.

The Center has been engaged in policy evaluation in co-operation with the Iwate Prefectural Government. This evaluation program on government policies was originally commissioned to the Center by the prefectural government. However, cooperation in the policy sphere has also developed into a local agreement between the Iwate prefectural government and the Iwate Local Intermediary Organizations Network. The agreement was reached on March 14, 2008, and it ensures that more nonprofit organizations are involved in the evaluation of local policies. This means that Iwate NPO Center can exercise policy functions effectively beyond a “principal-agent” relationship.

The president said,

We are very much social business (entrepreneurial) oriented, but are also seeking for networking within local TSOs and strengthening civil society. And also we don’t feel constraint on the flexibility of our activities by government because we can discuss everything with local governments in partnership way.

Summary and discussion

In summary, these case studies (Case 1, Case 2, Case 3) indicate that local intermediary organizations that are engaged in managing public facilities are highly dependent on contractual government funding, which is similar to the finding of our postal survey. It means that the activities of all three intermediary organizations are highly “commercialized.” These organizations also seem to face institutional pressures. Nevertheless, the explicit evidence of a tendency toward institutional isomorphism, such as organizational changes toward bureaucratization, cannot be found in these cases. These three intermediary organizations continue to promote civic and nonprofit activities in different ways and also strategically manage stakeholder relationships by utilizing their political functions and highly professionalized knowledge. In addition, their political functions reach beyond the individual program level to policy formulation within higher local governance by conducting advocacy activities and by lobbying.

Examining “hybridization” from the perspective focusing on resources, goals and steering mechanisms has been limited in all cases with regard to the dimension of resources.³ These

organizations tend to be highly dependent on a quasi-market resource not non-market and non-monetary resources such as donations and volunteering. If collaborative networks among local nonprofit organizations can be seen as a social capital resource, “hybridization” also tends to be underdeveloped. From the organizational field perspective, the networks cannot sufficiently represent the interests of local nonprofit organizations. This means that collaborations with government tend to be individualistic, although Case 3 can be seen as a networking approach. In this context, the government as a regulator and provider of resources is still the most influential actor in such organizational fields.

However, in the dimension of goals, these organizations similarly seek both social and economic goals. In other words, they can exert different functions in relation to their social mission and drive for efficient operation and quality service as managers of public facilities. In the dimension of steering mechanisms, these intermediary organizations are required to follow the hierarchical steering mechanism in order to fulfill government-based quality criteria in the management of public facilities and other contractual relationships. On the other hand, these organizations can also operate organizations in accordance with their own rules and steering mechanisms. In all cases, the agenda and steering mechanisms are independently formed by a board of directors, an annual general meeting and other steering committees. The entrepreneurial leadership style of each leader is relevant to the hybrid nature.

In terms of their approach to the delivery of public services, as our previous study identified (Tsukamoto and Nishimura, 2007), these intermediary organizations are engaged in not only the sphere of “co-management” but also “co-governance.” Despite the financial dependence on government contracts, they can exercise political functions and retain their distinctive influence on the local community by negotiating power with governments and creating power through networks among other sectors and citizens. These intermediary organizations expand their political functions to higher political formulation and to the evaluation level of local governance.

Considering in particular Case 1 and Case 2, intermediary organizations seem to have the potential for “co-production” under the “Designated Manager System.” The notion of “co-production” is referred to as the production of their own services by citizen users in the sphere of the delivery of public services. Actually, Case 2 and Case 3 have their own steering committees that include citizen users. However, the degree of substantial “co-production” appears not to be so high because functions related to the representation of local nonprofit organizations and citizens of intermediary organizations themselves have been underdeveloped. In other words, the “intermediary” character of intermediary organizations cannot be exerted even in these advanced cases.

Conclusion: Building “hybrid” and “co-production” strategies

The research findings of our postal survey and case studies indicate that even intermediary organizations under new contractual relationships such as the “Designated Manager System” can exercise different and independent functions. A tendency toward “institutionalization” and “commercialization” can be found. However, institutional and commercial pressure is not

necessarily decisive in its constraint on organizational behaviors. The influence of such pressure on TSOs seems to be dependent on the degree of their “hybridization” and intermediary character. In other words, the strategic approach to utilizing hybrid and intermediary characters and to managing organizational fields can moderate institutional and commercial pressures.

In terms of the strategic approach to organizational fields and the delivery of public services, our study indicates that intermediary organizations can effectively exercise influence on relationships with government and the operation of public facilities through utilizing their political functions and entrepreneurship beyond “principal-agent” relationships. However, the degree of civic user participation in the sphere of the delivery of public services (“co-production”) has still been limited. Such tendencies seem to be associated with the low hybrid and intermediary character of intermediary organizations.

In conclusion, strengthening the hybrid and intermediary character of organizations is crucial to the strategic approach to organizational fields and pushing the delivery of public services toward “co-production.”

Notes:

1. Coercive isomorphism stems from political influence and the problem of legitimacy. It results from both formal and informal pressures exerted on organizations by other organizations upon which they are dependent and by cultural expectations in the society within which organizations function (DiMaggio and Powell, 1991: 67).

Mimetic isomorphism results from standard responses to uncertainty (DiMaggio and Powell, 1991: 67). Uncertainty is also a powerful force that encourages imitation (DiMaggio and Powell, 1991: 69).

Normative isomorphism is associated with professionalization (DiMaggio and Powell, 1991: 67).

2. In recent years, public interest corporations have faced radical changes due to public administration reforms with the aim of clearly distinguishing between two different corporation types. One corporation type works for public benefit while the other does not. Up until the end of 2008, existing public interest corporations are legally required to choose between the following two different legal forms: public interest association/foundation with tax advantage or general association/ foundation with no or less tax advantage.

3. For the analytical concept of hybrid organizations, Evers and Laville (Evers and Laville eds., 2004: 246-247) raise four dimensions: resources, goals and steering mechanisms, and corporate identity.

References:

- Anheier, H.K. and List, R.A. (2005) *A Dictionary of Civil Society, Philanthropy and the Non-Profit Sector*. London: Routledge.
- Bode, I., Evers, A. and Shultz, A. (2004) "A Third Way to Employment and Integration? : Social Enterprises in Europe between Workfare and Welfare." in A. Zimmer and C.Stecker (eds.). *Strategy Mix For Nonprofit Organisations: Vehicle for Social and Labour Market Integration*. New York: Kluwer Academic/Plenum Publishers.
- Brandsen, T. and Pestoff, V. (2006) "Co-Production, the Third Sector and the Delivery of Public Services: An Introduction" *Public Management Review*, vol.8 issue 4
- Dees, J.G. (1994) "Enterprising Nonprofits". *Harvard Business Review on Nonprofits*. Boston: Harvard Business School Press.
- Dees, J.G., Emerson, J. and Economy, P. (2001) *Enterprising Nonprofits: A Toolkit for Social Entrepreneurs*. New York: John Wiley & Sons, INC.
- DiMaggio, P.J. and Powell, W.W. (1991) "The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organizational Fields." In W. W. Powell and P.J. DiMaggio (eds.). *The New Institutionalism in Organizational Analysis*. Chicago: The University of Chicago Press.
- Evers, A. and Laville, Jean-Louis.(eds.) (2004) *The Third Sector in Europe*. Cheltenham: Edward Elgar.
- Frumkin, P. (2002) *On Being Nonprofit: A Conceptual and Policy Primer*. Cambridge: Harvard University Press.
- HM Treasury (2002) *The Role of the Voluntary and Community Sector in Service Delivery: A Cross Cutting Review*. London: HM Treasury.
- Keizai Sangyo Kenkyujo (2005) *NPO hōjin ankeito chousa kekka 2005 (The Research Report on the National Survey of the Specified Nonprofit Corporations.)* Tokyo: Keizai Sangyo Kenkyujo [RIETI] .
- Keizai Sangyo Kenkyujo (2007) *NPO hōjin ankeito chousa kekka (Chihojichitai Chousa)2007 ((The Research Report on the National Survey of the Specified Nonprofit Corporations[Survey on Local Authorities] .)*.
- Open Research Center Project (2005) *Zenkoku Jichitai Ankeito Chousa Houkokusho. [A National Survey on Collaborations between Local Government and Nonprofits in Japan]* .Tokyo: Institute of Business Management, Meiji University.
- Osborne, S.(1999) *Promoting Local Voluntary and Community Action: The Role of Local Development Agencies*. York: Joseph Rowntree Fondation.
- Pekkanen, R. (2003). "The Politics of Regulating the Non-Profit Sector." in S.P.Osborne (ed.) *The Voluntary and Non-Profit Sector in Japan*. London: Routledge.
- Pestoff, V. and Brandsen, T(eds.).(2008) *Co-production: The Third Sector and the Delivery of Public Services*. London: Routledge.
- Scott, W.R. and Davis, G.F. (2007) *Organization and Organizing: Rational, Natural, and Open System Perspectives*. New Jersey: Pearson Prentice Hall.
- Tsukamoto, I. and Nishimura, M. (2006) "The emergence of local nonprofit-government partnerships and the role of intermediary organizations in Japan: Contractual

relationship and the limits to co-governance”. *Public Management Review*, 8(4).

- Tsukamoto, I. and Nishimura, M.(2007) “The state and the strategic partnerships of local intermediary organizations in Japan: Between contractual relationships and the co-governance .Paper presented at the EGPA Annual Conference 2007 in Spain.
- Tsukamoto, I. and Nishimura, M. (2006) “The emergence of local nonprofit-government partnerships and the role of intermediary organizations in Japan: Contractual relationship and the limits to co-governance”. In Pestoff and Brandsen (eds.) *Co-production: The Third Sector and the Delivery of Public Services*. London: Routledge.
- Van Til, J. (2005) “Nonprofit Organizations and Social Institutions.” in R.D. Herman and Associates(eds.) *The Jossey –Bass Handbook of Nonprofit Leadership and Management*.2nd ed. San Francisco: Jossey-Bass.
- Weisbrod, B.A. (1998) *To Profit or Not to Profit : The Commercial Transformation of the Nonprofit Sector*. Cambridge: Cambridge University.

Table 1 Experience of Management of Public Facilities

Intermediary organizations with management of public facilities	Intermediary organizations without management of public facilities	Total
43.2	56.8	100.0

A note on response rates

2007. 70 Organizations surveyed with 45 organizations responding – a response rate of 64.3%

Table 2 Distribution of Income

Income (JPY)(thousand Euros)	Total	Intermediary organizations with	Intermediary organizations without

		management of public facilities	management of public facilities
< 5 million (< 33)	16.3	11.1	20.0 (23.8)*
5 million – 10 million (33 - 67)	9.3	5.6	12.0 (14.3)
10 million – 20 million (67 – 133)	20.9	11.1	28.0 (33.3)
20 million – 30 million (133 - 200)	14.0	22.2	8.0 (9.5)
30 million – 40 million (200 - 267)	14.0	16.7	12.0 (4.8)
40 million – 50 million (267 - 333)	9.3	5.6	12.0 (9.5)
50 million – 60 million (333 - 400)	2.3	5.6	0.0 (0.0)
60 million – 70 million (400 - 467)	0.0	0.0	0.0 (0.0)
70 million – 80 million (467 - 533)	2.3	0.0	4.0 (4.8)
80 million – 90 million (533 - 600)	2.3	5.6	0.0 (0.0)
90 million – 100 million (600 - 667)	4.7	5.6	4.0 (0.0)
> 100 million (> 667)	4.7	11.1	0.0 (0.0)
Total	100.1	100.2	100.0 (100.0)

A note on response rates

2007. 70 Organizations surveyed with 45 organizations responding – a

Response rate of 64.3%

* (): data with exception of intermediary organizations at national level which are relatively special cases

Table 3 Income Structure

	Total	Intermediary organizations with management of public facilities	Intermediary organizations without management of public facilities
Government contract	53.1	70.6	41.3
Government grant	5.0	0.9	7.7
Business contract	8.4	2.0	12.8
Business grant	4.1	3.4	4.5
Self-generated income	10.9	11.4	10.5
Member fees	5.8	3.4	7.5
Donation	7.1	3.4	9.6
Others	5.7	5.0	5.9
	100.1	100.1	99.8

A note on response rates

2007. 70 Organizations surveyed with 45 organizations responding – a Response rate of 64.3%

Table 4 Functions of Intermediary Organizations (function rated as “the first”)

	Total	Intermediary organizations with management of public facilities	Intermediary organizations without management of public facilities
Service providing function			
Providing space, goods and equipment	2.3	5.3	0.0
Providing information	9.3	15.8	4.2
Supporting set up of TSOs	7.0	5.3	8.3
Consulting with technical knowledge	16.3	15.8	16.7
Consulting	0.0	0.0	0.0
Evaluating TSOs	0.0	0.0	0.0
Training leaders and staff	9.3	10.5	8.3
Supporting voluntary activities	2.3	5.3	0.0
Improving skill of IT	0.0	0.0	0.0
Support by funding	9.3	5.3	12.5
Political function			
Developing networks between	16.3	21.1	12.5

TSOs			
Strengthening accountability of TSOs	4.7	0.0	8.3
Coordination between government, business and TSOs	4.7	0.0	8.3
Gathering TSOs' voice at local level	0.0	0.0	0.0
Gathering TSOs' voice at national level	0.0	0.0	0.0
Evaluating local governments	0.0	0.0	0.0
Advocacy	16.3	15.8	16.7
Research	2.3	0.0	4.2
Others	0.0	0.0	0.0
	100.1	100.2	100.0

A note on response rates: 2007. 70 Organizations surveyed with 45 organizations responding – a Response rate of 64.3%; Respondents are required to rate the functions from the first to the third ranking in terms of the weight.