

Privatization of Public Services: Agenda and Expectations

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- I Expansion of Public Businesses
 - 1 What Are So-Called Public Businesses?
 - 2 Status Quo of Public Business Development
 - 3 Background of Public Business Expansion
- II New Fields and the Advantages of Public Businesses
 - 1 Promising New Fields for Public Businesses
 - 2 Patterns Giving Rise to Public Businesses
 - 3 Advantages of Public Businesses
- III Disincentives and Forward-Looking Agendas in Expanding Public Businesses
 - 1 Disincentives and Solutions in Expanding Public Businesses
 - 2 Forward-Looking Agendas in Promoting Public Businesses

Public businesses (i.e., businesses that are created through privatization of tasks and services previously handled exclusively by public or nonprofit organizations) have recently come in for increased attention. While conventional public businesses are created when some simple tasks and services for citizens are outsourced, the scope of public businesses is likely to expand into new fields in the years to come, including the comprehensive management of public facilities as well as the in-house clerical work of administrative organizations. The types of public businesses that come into being are also expected to see greater diversification, ranging from traditional outsourcing of simple operations to the privatization of public bodies, the establishment of public-private joint ventures and business transfers.

Three vital steps are necessary in order to enhance public businesses. These include: developing market mechanisms whereby a competitive environment leads to the selection of appropriate corporate suppliers; providing support to redundant personnel in improving or changing their careers; and introducing multi-year concession contracts in granting operating permits. In addition, it is necessary for administrative entities to not only to improve their abilities for designing, contracting and managing public businesses, but also to establish public business promotion schemes, such as setting aside special designated zones for public businesses. At the same time, private companies are generally required to create higher added value than that provided by public organizations, as well as to shoulder the burden of possible risks themselves. Accordingly, it is essential for administrative organizations, private corporations and the general public to enhance their awareness of public business activities.

I Expansion of Public Businesses

1 What Are So-Called Public Businesses?

Japan has recently seen considerable attention being given to so-called public businesses, a term that is used to refer to a business that is created through the privatization of tasks and services that had previously been handled exclusively by public or nonprofit organizations. According to the Study Group on the Influence of Public Businesses (chaired by Professor Atsushi Seike of the Faculty of Business and Commerce at Keio University), an advisory body to the director-general of the Commerce and Information Policy Bureau of the Ministry of Economy, Trade and Industry, a public business is defined as a business involving those public services that can be handled by the private sector. The study group takes the view that the private sector is capable of offering more diverse, advanced and efficient administrative services than conventional public organizations.

On the one hand, many people involved in the information technology (IT) sector and in local government regard public businesses as virtually identical to outsourcing administrative tasks as currently practiced by the central and local governments. On the other hand, others think that public businesses include compulsory education and medical treatment and agriculture, which were previously off-limits to joint-stock corporations due to various regulations. Because there are no uniform views on the meaning of public businesses, this paper will refer to public businesses in the broader sense of businesses that engage in tasks previously carried out exclusively by public or nonprofit organizations, but which private enterprises are now permitted to carry out.

2 Status Quo of Public Business Development

Many such public businesses are already implemented in the format of outsourcing administrative operations. In the ordinary account for fiscal 2001, local governments appropriated a total of roughly 22.5 trillion yen, or 23 percent of total local government expenditures, for ordinary construction projects such as roads, bridges, parks, public housing and schools. The bulk of these projects were contracted to companies in the private sector, thereby essentially making them public business undertakings.

In addition to ordinary construction projects, the outsourcing of simple or on-site business operations has recently been proliferating year by year. In prefectures and ordinance-designated major cities, the scope of public businesses is being expanded as these govern-

ments are increasingly outsourcing such operations as well as facility management, all of which are relatively easy to formalize and standardize (Figure 1).

3 Background of Public Business Expansion

The following three factors can be singled out as the reasons behind the expansion of public businesses every year.

(1) Growing concerns over the costs and quality of public administrative operations

In the face of today's severe fiscal conditions and Japan's prolonged economic slump, people are becoming more concerned about the costs and quality of public administrative operations and are scrutinizing them more critically than ever before. As the public sector is not required to pay taxes or seek profits, government operations are generally regarded as costing less than those of private companies. However, detailed analyses of overall costs show that administrative operations do not necessarily involve cost advantages.

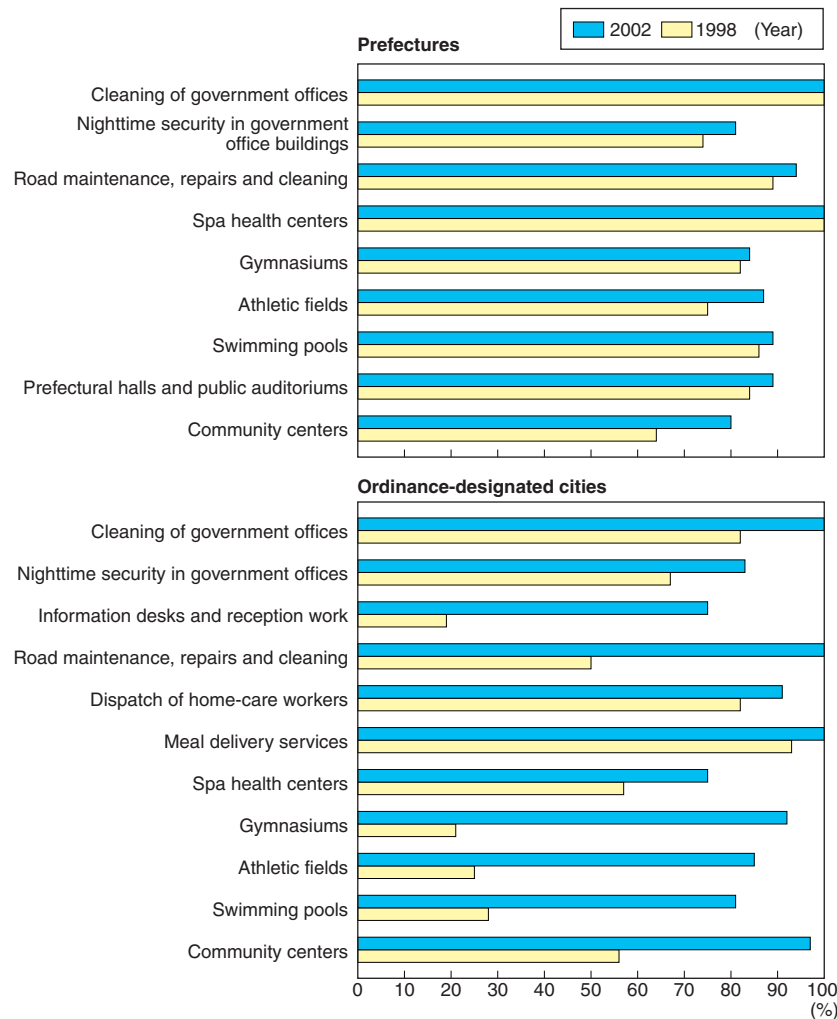
According to a provisional estimate by the New Business Conference (NBC), a municipality with a population of approximately 100,000 could reduce costs by 2 billion to 4 billion yen per year (or 4 billion to 9 billion yen for a city with a population of 200,000–300,000) if it employed part-timers or outsourced certain operations to the private sector. Such outsourcing could include child-care centers, school meals, school janitors, school guards, official car pools, waste collection, kindergartens, after-school care, as well as the management of cultural and sports facilities.

Recent years are seeing a growing interest among the public sector towards private finance initiatives (PFI), and the adoption of such programs by public entities has reportedly reduced costs by approximately 15 percent to 20 percent. Besides cutting costs, customer satisfaction has also improved due to the outsourcing of bus operations and reception work to private sector companies. In view of both cost cutbacks and improvements in services, the public sector has been accelerating the outsourcing of public administrative operations.

(2) Reducing permanent personnel and the mass retirement of public employees

In addition to the continuing worsening of Japan's fiscal situation since the collapse of the bubble economy, the government is also aiming at slimming down employment by emulating the reforms of the US and the UK. As a result, the public sector is stepping up the outsourcing of operations and reducing permanent staff positions. The number of employees in local governments has continued to fall since 1995, dropping by 123,000, or 3.8 percent, over the past five years. Many

Figure 1. Use of Outsourcing



Note: The bar chart shows the contracting of operations to nonprofit organizations, such as juridical foundations. The figures in the bar indicate the percentage of public institutions that outsource overall operations vis-à-vis the total number of public institutions. Spa health centers, gymnasiums, athletic fields, swimming pools, prefectural halls, public auditoriums and community centers are included as they utilize outsourcing extensively.
 Source: The official Website of the Ministry of Public Management, Home Affairs, Posts and Telecommunications.

municipalities are dealing with this situation by outsourcing essential operations to the private sector rather than by filling vacancies with permanent staff.

As is also the case in the private sector, the so-called baby-boomer cohort occupies a substantial part of the public sector workforce when broken down by age group. Because of this, the number of retiring civil servants is expected to peak during the next 10 years. Among national government officials, for example, those aged 50 to 55 exceed the distribution of other age brackets by some 10 percent to 15 percent, and show an even higher bias of 20 percent to 25 percent among local public workers. Although the fact that employees currently in this age bracket will soon retire all together as mentioned above, many local governments maintain a policy of not filling vacancies with permanent staff in organizations whose operations have already been outsourced. As a consequence, the upcoming mass retirement of public workers will become a major factor in further accelerating the outsourcing of administrative operations.

(3) Easing of regulations (revising various laws)

In a bid to further streamline operations and utilize private enterprises, the government is successively abolishing or relaxing regulations and rules (and/or revising various laws) that are impeding the outsourcing of administrative operations (Table 1). The effects of such deregulation, which are just starting to appear, will have a substantial impact on expanding the market for public businesses in the years to come.

II New Fields and the Advantages of Public Businesses

1 Promising New Fields for Public Businesses

The following administrative operations are expected to develop as public businesses in the future.

Table 1. Major Legislative Revisions Contributing to Expanding Public Businesses

Law	Contents of Revisions	Fiscal Year
Local Autonomy Law	• Deregulating the types of entities that can undertake management contracts for public facilities	2003
Worker Dispatch Law	• Extending working terms • Deregulating the scope of permitted business operations	2003 1998
Sewerage Law	• Deregulating the scope of operations that may be contracted to the private sector	2002
Waterworks Law	• Deregulating the contracting of operations to third parties (such as other waterworks operators, etc.) with high technical skills • Simplifying procedures for consolidating waterworks businesses	2001
National Property Law and other Statutes	• Liberalizing procedures for establishing private rights to administrative property that is involved in PFI projects	2001
Waste Disposal and Public Sanitation Law	• Liberalizing requirements for designating waste disposal centers that are involved in PFI projects • Easing of limits on contracted operations	2000
Nursing Care Insurance Law	• Drastic shift from highly bureaucratic public programs to an insurance-based system that allows users to select from a menu of services	2000

Note: PFI = private finance initiative, which is a method to leverage the financing modes, technologies and managerial know-how of private enterprises in public works projects.

Sources: Compiled from various materials and information available on related Websites.

(1) Management of public facilities

Pursuant to the revision of the Local Autonomy Law, regulations on contracts with the private sector for the management of public facilities used by citizens were relaxed. Previously, the awarding of contracts for such operations was limited to public service corporations (such as juridical foundations) or joint ventures between local governments and the private sector (in which municipalities played a substantial role). Under the new legislative framework, however, joint-stock companies are now allowed to enter the market. Currently, the central and prefectural governments contract the management of public facilities to more than 3,400 public service corporations nationwide. The easing of regulations is creating many opportunities for private companies to enter the market to carry out operations in a wide variety of fields (Table 2).

Even now, some activities such as nighttime security and reception work at government office buildings or public auditoriums are outsourced to the private sector in many cases. In the years ahead, some private companies may assume the comprehensive management of such facilities, and others may undertake the management of facilities for a number of municipalities on a collective basis. It is predicted that private firms specialized in managing public facilities will emerge in Japan, similar to what happened in Europe and the US, which have seen many cases of this nature.

(2) In-house clerical work of administrative bodies

Up until now, the administrative work subject to outsourcing has mainly been onsite operations and services for citizens. However, there are other fields of operations that administrative organizations should

Table 2. Major Public Facilities and Sizes

Facility	Total Size
Public housing	Some 2.4 million units
Municipal and other parks (Total area)	Some 100,000 locations Some 1,060 sq. kilometers
Schools (for compulsory education) (Total area of school buildings)	Some 34,000 schools Some 134 sq. kilometers
High schools (Total area of school buildings)	Some 4,100 schools Some 38 sq. kilometers
Prefecture and city halls, public auditoriums (Total floor space)	Some 3,000 locations Some 12 sq. kilometers
Libraries	Some 2,600 locations
Museums	Some 650 locations
Gymnasiums (Total floor space)	Some 5,900 locations Some 14 sq. kilometers
Athletic fields (Total ground area)	Some 1,100 locations Some 26 sq. kilometers
Ballparks (Total ground area)	Some 4,100 locations Some 62 sq. kilometers
Swimming pools (Total surface area)	Some 4,700 locations Some 2.5 sq. kilometers

Source: Compiled from various materials and information available on related Websites.

consign to the private sector. In particular, in-house clerical work should be thoroughly streamlined, as such work creates no direct added value for the citizens—the consumers of public services. As such, it is important for local governments to increase the efficiency of such operations by adopting external know-how from non-sector sources.

According to several surveys conducted by the Nomura Research Institute, Ltd. (NRI), at least 30 percent of

prefectural government employees are engaged in internal clerical work (calculated on a working hour basis). Within this figure, approximately 10 percent of such workers are involved in tasks that can theoretically be standardized and computerized, while some 3 percent to 5 percent deal with work relating to welfare, wages and the processing of routine expenditures.

As the number of local government workers totaled approximately 3.14 million nationwide in 2002, the ratios cited above suggest that the total work volume is currently handled by approximately 1 million employees engaged in in-house clerical work, some 300,000 staffers handling operations that could easily be standardized and computerized, and 100,000 to 150,000 workers assigned to carrying out welfare-related and other services. In terms of value, local governments spent approximately 27 trillion yen on personnel expenses on a net budgetary basis (i.e., after adjusting for any overlap between prefectures and municipalities). Of this amount, some 2.7 trillion yen was used for operations that could be standardized and computerized, while around 1 trillion yen was spent on welfare-related work. Combined with other clerical tasks, even more expenses were accrued in handling operations that could be outsourced in principle.

2 Patterns Giving Rise to Public Businesses

The presumed patterns giving rise to public businesses with a prospective market potential in the future are

expected to be as diverse as those described below (Figure 2).

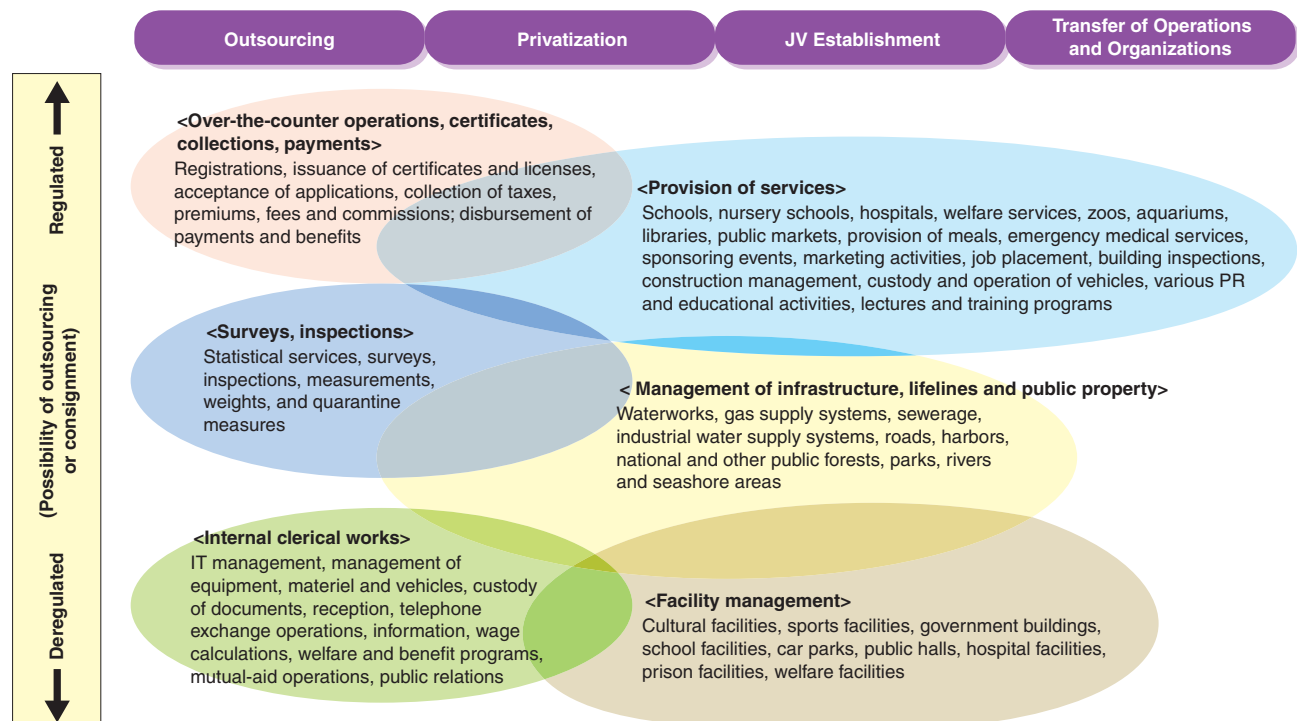
(1) Conventional outsourcing and PFI

Public businesses arise when administrative tasks previously handled exclusively by local government or quasi-governmental organizations are outsourced or handled in line with a private finance initiative, provided that there is no inherent need to keep such activities within the public sector. More public businesses will be established through conventional outsourcing patterns, as the many public businesses have been created to date through the outsourcing of administrative tasks provides for an easier transfer of operations to the private sector than might be available through other means. The presumed targeted operations will be those that can be easily shifted to the private sector, such as technical work or publicly managed operations, including housing, water supply and sewerage services.

The problem with conventional outsourcing is that such operations tend to be outsourced on a piecemeal basis, making it hard for private companies to assert their originality and ingenuity. Following the enforcement of the PFI Law, however, cases in which operations dealing with the maintenance and management of facilities are comprehensively outsourced en masse have been increasing.

Under extended contract terms, moreover, the private sector's vitality can also be leveraged more effectively in operations other than those implemented by PFI projects. Such precedents have been seen in the cases of

Figure 2. Expansion of Public Businesses



Notes: (1) Includes fields that are closed to private companies by statute; (2) JV = joint venture.

both Miyoshi in Hiroshima prefecture and Ota in Gunma prefecture, where each municipality signed a comprehensive five-year contract with joint-stock companies to operate several water purification plants following the amendment of the Waterworks Law. The city of Ota, for example, will pay 135 million yen per year to the contractor, but still expects cost reductions totaling 264 million yen over the five-year period.

(2) Privatization of public entities

Public businesses arise when incorporated foundations and public corporations (currently entrusted with the administration or management of public facilities) are to be fully privatized. The prospective business fields or operations include those currently carried out exclusively by incorporated foundations or other public organizations (such as the management of special facilities), those that private companies generally have difficulty in undertaking, and those expected to become profitable under certain conditions, such as by reducing the initial investment burden.

It is true that some public organizations which enjoy high profitability or high cost competitiveness in their administrative operations are beginning to regard privatization as an alternative for future operations. They have their eyes set on the prospects that management will enjoy a growing degree of freedom through privatization, leading to the generation of substantial profits by developing contingent and ancillary businesses that were previously prohibited. They are also keen to take advantage of wider-ranging options to manage costs, such as multi-year contracts with outside service providers.

So far, only a few incorporated foundations have been privatized. One excellent example is the case of the Railway Welfare Association, which spun off the KIOSK companies following the 1987 privatization of the former Japanese National Railways. Since that time, KIOSK firms have achieved high growth through specialization and by expanding and diversifying their outlets (including moves into Japanese-style bars and hotels), as well as in some cases advancing into the residential neighborhoods. The other involves the transformation of the Tokyo International Forum, previously an auxiliary organization of the Tokyo metropolitan government, into a joint-stock company known as the Tokyo International Forum Co., Ltd. This is an advanced example of the emergence of a joint-stock company that undertakes the comprehensive management of public facilities through privatization.

In shifting to privatization, some public bodies require help through the inclusion of private sector financing or human resources to assist in their management. For example, a wide array of corporations involved in staging events and the management of facilities (including the East Japan Railway Co., Mitsubishi Estate Co., Ltd., Suntory Ltd., Dentsu Inc., Tokyo

Electric Power Co., Inc., Nippon Telegraph and Telephone East Corporation and Tokyo Gas Co., Ltd.) have invested in the Tokyo International Forum mentioned above and take part in its management.

Various approaches—such as investing in a new company or dispatching directors—should be considered as a means of engaging in new public businesses. This is in addition to the traditional outsourcing of administrative operations.

(3) Establishment of public-private JVs

Another form of public businesses may arise through the establishment of public-private joint ventures to carry out administrative operations related to in-house general affairs. This is especially true in activities that feature the peculiarities of public operations but not necessarily the need that they be carried out by public organizations themselves.

Some progressive local governments are currently integrating and centralizing activities in such fields as general affairs, IT, payroll processing and welfare within each administration. In the years ahead, it is predicted that those private companies, which understand the peculiarities of public operations will streamline public operations by leveraging IT technologies and introducing better management techniques. For instance, they may establish shared-service firms jointly with local governments. In such a case, the principal developers in the immediate future are expected to be prefectures and ordinance-designated cities with a large volume of such work, along with major local private corporations with experience in setting up shared-service firms.

Meanwhile, there is a growing demand in smaller cities, towns and villages for minimizing internal operations, as the volume of administrative work has increased in parallel with the trend for decentralizing national government activities. Yet it is also true that such small municipalities will not be able to afford the investment needed to reform IT-related systems and operations. Under these circumstances, it is only natural that shared-service companies that are established under the auspices of local governments in prefectures and ordinance-designated cities may expand their operations into smaller cities, towns and villages. Indeed, some local governments are currently considering the establishment of shared-service entities to handle in-house clerical work, a move that may lead to the actual creation of joint ventures between the public and private sectors.

(4) Transfer of operations

Public businesses arise when ordinary tasks in the public sector are transferred to private firms that already conduct similar business operations, such as the management of car parking facilities, government office buildings, public accommodation facilities and retail stores. While tendering and bidding are likely to take

place for the time being between local governments and the private sector in such business fields, administrative activities and the organizations themselves will be increasingly transferred to private companies over time. We have recently seen this happen in Niigata prefecture's Nakajo township and the city of Saga, where the local municipal gas businesses were sold to the private sector.

Following the transfer of public operations, some private sector companies have begun to consider whether they could employ the personnel of the public organizations. Given this trend, a new market is likely to emerge and rapidly expand through the drastic transfer of operations by the public sector.

3 Advantages of Public Businesses

I have paid particular attention to the likelihood that the anticipated emergence of public businesses would contribute to separating the concept of public operations from that of public organizations. The general mindset up to now has been that public operations should be carried out by public bodies, which receive various preferential treatment. For this reason, many outsourced operations have been handled by public-service corporations. In the future, however, it is predicted that private sector companies that are given some forms of preferential treatment will increasingly implement public operations. This trend is expected to increase now that regulations on the management of public facilities have been relaxed following the amendment of the Local Autonomy Law.

The advantages stemming from the consignment of public operations to private companies can be enumerated as follows.

(1) Reductions in operating costs

Private sector companies are highly likely to offer costs that are below those incurred by public organizations, as they aggressively pursue cost-cutting in the face of stiff competition from their peers. In addition, private corporations enjoy a greater degree of market freedom than do public organizations. This enables them the flexibility to implement various measures to save costs. These include: reducing labor costs per employee by hiring temporary staff and part-timers; making operations more efficient through the introduction of related operating systems; exercising economies of scale (reducing common costs and per-unit procurement prices through bulk purchases); and slashing consignment costs by signing multi-year contracts.

Examples include the comprehensive consignment of water purification operations in Miyoshi (Hiroshima prefecture) and Ota (Gunma prefecture) to private sector operators, which resulted in reducing operating costs due to the factors mentioned above. And as this operational outsourcing enabled greater efficiency in

using taxpayer money, significant benefits accrued to the public in general and to the taxpayers in particular.

(2) Improvements in services and increased revenues

In their efforts to increase revenues from their business operations, private enterprises have the freedom to expand the scope of their activities by implementing a wide variety of measures, including the development of ancillary businesses. Because of this freedom to choose the facilities they wish to operate and the local governments they wish to do business with, private companies can easily expand their businesses in such areas as the integrated management of similar facilities or administrative tasks involving adjacent local governments. With various regulations likely to be eased, it is assumed that nationwide operators specializing in managing certain facilities, such as parks and gymnasiums for example, will start to emerge.

Due to their public nature and tightly knit relations with local governments, however, public organizations have been firmly restricted from engaging in business activities and developing ancillary operations that generate earnings. Practically speaking, it is only when the private sector is allowed to enter the market that the public sector will be able to realize earnings. On the one hand, an improvement in revenues means that the value stemming from public facilities and foundations (assets) is increased; and on the other, it means that the utilization of these facilities becomes more efficient. As a result, the costs that must be shouldered by the public sector to pay for such operations will ultimately be reduced. For example, given that the East Japan Railway Company currently earns nearly 770 billion yen annually from activities other than its core business of transportation, it is well worth considering programs that can efficiently utilize public resources.

The effective use of public resources will ultimately benefit the public, which is the user of such services and the provider of the funding. Accordingly, it is highly advisable to earn revenues by leveraging public property within a scope that does not impinge on the intended purpose of a public asset, as such utilization can lead to improving the quality of services.

(3) Creating new markets and innovating methods for implementing operations

The new paradigm of converting governmental operations into public businesses leads to providing new markets for the private sector. In conventional contracting work for the public sector, for instance, the private sector carries out only a part of the tasks basically handled by administrative organizations. However public businesses provide private enterprises with considerable leeway for exercising discretion and exerting originality as well as ingenuity under a long-term, blanket contract, thereby efficiently implementing contracted

operations and offering quality services. As a result, public operations can be improved with innovation when they are liberalized under stiff market competition.

If the idea of public businesses moves forward as described above, the concept of conventional outsourcing would further be streamlined, thereby changing the prototype of appropriate operators for public services. By opening up the market for administrative tasks to the private sector, the general public will likely benefit in terms of costs, revenues and methods for implementing operations. Moreover, it is well worth considering privatizing various operations, such as accounting work for public enterprises, medical treatment, education and agriculture, all of which have been handled exclusively by a limited number of institutions due to the high public interest in such activities.

III Disincentives and Forward-Looking Agendas in Expanding Public Businesses

1 Disincentives and Solutions in Expanding Public Businesses

So far this paper has attempted to present the big picture in examining the possibilities of expanding public businesses, the prospective fields for expansion, ways of broadening the methods for handling public business operations, as well as the advantages offered by public businesses. The next section discusses the impediments to expanding public business operations and possible solutions to these issues.

(1) Restrictions under various laws and rules

The major factors that directly prevent the expansion of the public business market are laws that mandate the implementation of individual operations. Furthermore, the Law on the Appropriateness of Government Subsidies limits flexibility in operating facilities built by subsidies and the development of ancillary businesses.

While these laws and regulations are likely to be eased as noted earlier, it is also true that there are those who oppose such revisions. On the administrative side, for example, there are deeply rooted views holding that public tasks may only be handled by public organizations. Those with this opinion believe that profit-seeking corporations could harm the interests of the intended beneficiaries and express considerable anxiety over entrusting such operations to the private sector.

It was previously difficult to reject these concerns out of hand, especially when there was an insufficiency of service suppliers and limited information on the services available. Today, however, there are many companies that provide a host of services, making it more likely that firms interested only in profits at the expen-

se of the beneficiaries would sooner or later be driven out from the marketplace under the principles of a market economy. As a matter of fact, private companies also need to strive to enhance cost performance under competitive market principles and to establish a more transparent structure of corporate governance than exists in the public sector. In view of these factors, it is quite probable that transforming administrative tasks into public businesses could lead to greater efficiency than maintaining the status quo in the public sector.

(2) Treatment of staff members facing replacement

The second impediment that indirectly hinders the expansion of the public business market is the deeply rooted problem of how to deal with the staff members who currently play active roles in public organizations. As many specialists have been hired at many levels of on-site business operations, it would be difficult to rapidly replace or eliminate their duties. To cope with this problem, public sectors are actually outsourcing such operations at a slow pace, while gradually cutting the number of permanent staff members.

When operations involving a relatively small number of staff (such as management of office buildings, telephone exchange operations and reception work) were outsourced, it was possible to resolve personnel problems through a gradual transition by relying on natural attrition through not filling vacancies with permanent staff members. However, it will be difficult to adopt the same policy when outsourcing plans affect a large number of workers (the prospective operations for the future public business; such as school meals, nursery schools and various facilities), because the transfer of these operations will take time and the process will negatively affect the morale of the remaining employees.

In the years ahead, it will be crucial to deal squarely with the treatment of staff members who are engaged in tasks that are likely to be outsourced by establishing a system that provides them with multiple occupational alternatives, such as transfers to private sector companies, absorption by other administrative organizations, early retirement options, or a change of jobs. Moreover, it will be important for the public sector to devise carefully considered measures to provide career counseling and replacement support. These steps must be regarded as the necessary costs for making operations more efficient and expanding public businesses.

(3) Constraints of single-year budget

It is true that public organizations have been exclusively handling many tasks that are currently considered as likely public business targets—partly because such operations produce little or no profits. When such operations are shifted to a public business basis, private companies are expected to carry out such operations under schemes designed to include some subsidized costs and contract fees.

In this case, it is crucial to improve the cost performance of operations by allowing private firms to freely make investments and develop ancillary businesses through the introduction of medium- to long-term concession contracts (i.e., granting operating rights), as is the case in PFI projects. At the moment, however, only a limited number of operations are being conducted under longer-term contracts due to the limitations imposed by single-year budgets.

In view of the principle behind the single-year budgetary process, it would not be desirable to infinitely increase the number of long-term contracts with little regard to the resulting debt burden. Nevertheless, it is important to introduce mechanisms for operations that obviously and inevitably need to be continued in the future. This would enable private corporations to flexibly exert their originality and ingenuity under long-term concession contracts that incorporate appropriate procedures and due diligence.

2 Forward-Looking Agendas in Promoting Public Businesses

It would seem obvious, of course, that substantial positive results in ongoing public businesses will lead to overcoming the difficulties discussed above. Therefore, I would like to conclude this paper by addressing the major agendas of the future that both the public and private sectors will need to deal with in order to expand the public business concept.

(1) Improvement in public sector management techniques

To effectively expand public businesses, public entities must enhance their management techniques in designing, contracting and inspecting public business operations. At the design stage, administrative personnel need to decide what operations that are currently conducted in-house should be outsourced, and what format the outsourcing should take. Concurrently, they must draw up specifications that specify the quality and performance to be guaranteed. At the tender solicitation (bidding) stage, public sector organizations need to formulate criteria for selecting top-ranked providers, while enhancing their capabilities and insight to assess the contents of the proposals received.

At the contracting stage, public entities have to develop techniques to control the contractors by such means as incorporating service level agreements (SLA: contracts that specify the level of contents and quality to be guaranteed by the contractor). And once the contract is signed, techniques for evaluating the content of services and prices are required.

In conventional outsourcing models, public sector organizations have typically divided operations into several simple processes, put each process out to tender, and assessed bidders according to price. This prac-

tice may be ideal for partial operations in many cases, but is not effective for overall operations. In order to significantly benefit all the parties involved—the public entities executing such consignment contracts, the private companies offering the service and the general public that receives services from public businesses—public bodies need to focus not only on simply managing the bidding for public businesses in the future, but also on getting more involved in designing, contracting and inspecting public business operations.

It is important for the public sector to learn such management techniques through the actual processes involved in designing and evaluating public businesses. Public entities need to know at an early stage how to procure consulting services from private companies to obtain management know-how, while simultaneously improving management techniques within the overall public sector by sharing information about similar cases. As a medium-term challenge, it is essential to firmly establish constantly needed techniques within the public sector by accumulating know-how as well as developing specialists when incorporating parts of some operations within the public sector.

(2) The shouldering of possible risks by private firms

Private-sector corporations undertaking public sector tasks are required to leverage proprietary know-how to create higher added value than that produced by the administrative body. As private companies with diverse experience are expected to become active in the public business market, it is important for such firms to select projects where they can generate higher added value than the public sector is capable of producing.

Once private corporations have decided on the services in which they want to participate, they need to actively engage in the early phase of designing the business scheme while giving due attention to the possible risks involved in such things as investing in affiliated companies and/or corporate acquisitions—both of which are beyond the traditional paradigms of outsourcing. At the stage of preparing to actually initiate a new public business, it is essential for both the public and the private entities to exchange views and mutually present proposals in coming to agreement on the appropriateness of their respective roles as well as the items covered by an SLA. Through such processes, private companies must be prepared to assume a more proactive stance than in the past.

(3) Establishment of special public business zones and exclusive promotion entity

To accelerate the trend towards shifting public services to public businesses, it is important for the government to support efforts to create new public businesses by such things as mapping out deregulation measures with a fixed time deadline in special designated zones.

Further, it is necessary to establish a special task force or organization to help promote Japan's overall public business climate by aiding existing organizations that attempt to shift tasks to public businesses and by supporting such bodies in liaising with offices responsible for relevant laws and regulations. Such an organization is expected to have the function of accepting business proposals from the private sector and introducing them to parties intending to specifically create public businesses when necessary. I believe that creating public businesses by leveraging private sector ideas is the fast track to achieving better results.

This special task force should also be competent enough to assume the lead for related organizations. By doing so, it can play a vital role in submitting proposals to the Council for Regulatory Reform with respect to reviewing annual reports and relevant laws concerning the promotion of public businesses.

(4) Changing the mindset regarding public businesses among the public sector, private corporations and the general public

Promoting public business means a shift from a conventional process-management administration to a performance-oriented administration at the very core. When the public sector aims to create a public business by transforming a certain portion of the public sector's operations and extracting the private sector's originality and ingenuity, it is unlikely that conventional process-management administrative entities would be able to create suitable specifications and manage the overall workflow of such tasks.

Nevertheless, a performance-oriented administration may create unexpected difficulties in the process of implementation. In particular, the risk is expected to increase during the transition period from a process-management administration. Although the public sector has traditionally exerted its utmost efforts to avoid unexpected risks, administrative personnel need to be less apprehensive about the possible hazards in order to effectively promote public businesses.

As indicated below, the administrative and private sectors as well as the general public need to be ready and to adopt an open approach to changing their overall way of thinking regarding public businesses in the years to come. Specifically, the public sector must develop the courage and perseverance needed to devise a framework for performance-oriented management, private companies must have the fortitude to positively implement the contracted operations on their own account and responsibility and with cost-performance results that exceed those of the administrative sector, and the general public must appreciate the public sector's endeavor to work on public businesses, and not be so quick to criticize the government when unexpected problems arise.

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