

Towards the Growth of Japan's Public Support Service Market

— Challenges and Activities to Innovate Public Services —

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The public support service (undertakings outsourced by the national and local governments) market is projected to grow remarkably, reaching a size of ¥5.4 trillion in fiscal 2012. The development of this market is significant in that the innovation of public services can be achieved by changing service providers and improving the quality of services and the ability of employees.

The advantages of developing the public support service market include enabling concentrated use of the resources of local governments for their core functions, improving the quality of public services, increasing the efficiency of public services, developing human resources engaged in public services and contributing to regional economies.

While outsourcing offers these advantages, the number of private-sector companies participating in this market is currently limited. The issues hindering the active participation of private-sector companies include: (1) lack of skills on the part of local governments ordering such services, (2) inadequate understanding of the need for continued business operations by support service companies, (3) ambiguities and inconsistencies in systems applied to outsourcing, (4) lack of mechanisms addressing treatment of employees when outsourcing takes place and (5) inadequate understanding of the advantages brought about by outsourcing.

Local governments that outsource services hold the key to the development of a sound public support service market. A government-wide approach is necessary for local governments to strategically promote outsourcing, rather than limiting such activities only to certain services or some departments/bureaus, by assigning a person exclusively responsible for outsourcing.

Coordination by the national government of the different systems and procedures adopted by each local government and the preparation of a standard set of guidelines by the national government can facilitate the development of the public support service market. On the part of private-sector companies, actions should be taken to publicize their activities in order to gain a greater understanding of local governments and citizens, and to ensure compliance with laws and regulations.

I Japan's Public Support Service Market to Amount to ¥5.4 Trillion

Public support services refer to public services offered by local governments that are outsourced to private-sector companies and organizations (Figure 1).

As shown in Table 1, a variety of formats is adopted in which the private sector is involved in public support services such as (1) work entrustment, (2) outsourcing by means of the designated manager system and private finance initiative (PFI: using the funds and expertise of the private sector to construct and operate public facilities) and (3) privatization.

Nomura Research Institute (NRI) has estimated the market size of public support services in fiscal 2012, in which the private sector plays leading roles, at ¥5.4 trillion¹. This market size of ¥5.4 trillion is huge and comparable to that of the newspaper and publishing industry (¥5 trillion in fiscal 2005)² and that of the temporary staffing industry (¥5.4 trillion in fiscal 2006)³. We have estimated the market size for fiscal 2007 at ¥4.6 trillion.

As shown in Table 2, while private-sector companies have been successively participating in this market, the

market is still at its beginning stage. This is because work is entrusted/outsourced chiefly to auxiliary governmental organizations and/or public entities, often for a single fiscal year and on a small-scale basis.

However, in light of the increasingly worsening financial situation of local governments and the achievements that private-sector companies have made so far in providing public support services, the market structure for public support services is expected to shift from the current structure involving outsourcing “on a small scale, for a single fiscal year and principally to auxiliary governmental organizations” to a structure involving outsourcing “on a large scale, for a long period of time, and principally to private-sector companies” (Figure 2) in the next five years. This shift will lead to the emergence of a fully developed public support service market, and will give rise to large support service companies. If the national and local governments provide institutional support, these moves will be accelerated further.

This paper describes the significance, advantages and issues to overcome with respect to developing the public support service market where private-sector companies are major players, and suggests measures that the national and local governments and private-sector companies should adopt in the future.

Figure 1. Evolution of Public Support Services by Private-Sector Companies

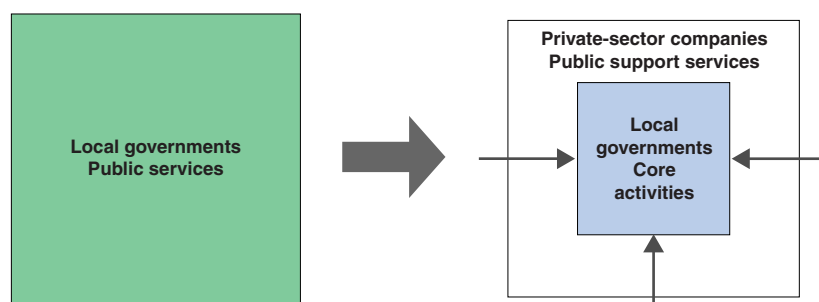


Table 1. Public Support Service Formats

Classification	Characteristics	Scale
Work entrustment	Part of activities such as cleaning and security is entrusted. Generally, work is based on a contract for a single fiscal year. This format is adopted for all kinds of activities of local governments.	Small
Designated manager system	Private-sector companies, non-profit organizations (NPOs) or community citizens groups are designated as managers for the comprehensive management and operation of public facilities (this designation is a sort of an administrative order and is not based on a contract such as for entrustment). Generally, multiple fiscal years are involved. The management of events conducted at such facilities and maintenance of such facilities are also included.	Medium
PFI	This technique uses private-sector funds and expertise to construct, operate and maintain public facilities. The major characteristic is that the private sector constructs facilities and procures equipment on a large-scale basis. Because the private sector is permitted to collect fees, the number of cases is increasing in which companies involved in PFI are designated as managers under the designated manager system.	Large
Market testing (public-private sector competition)	Public and private-sector companies participate in competitive bidding on an equal footing. The entity that can provide the best price and quality for the relevant service provides such service. In many cases, the service format adopted is comprehensive work entrustment. There are still only a limited number of cases in which local governments have adopted this method.	—
Privatization	Facilities and businesses operated by the public sector are transferred to the private sector. Cases adopting this method include utilities, transportation, nursery schools, nursing care facilities, hospitals, etc.	—

Note: PFI = private finance initiative

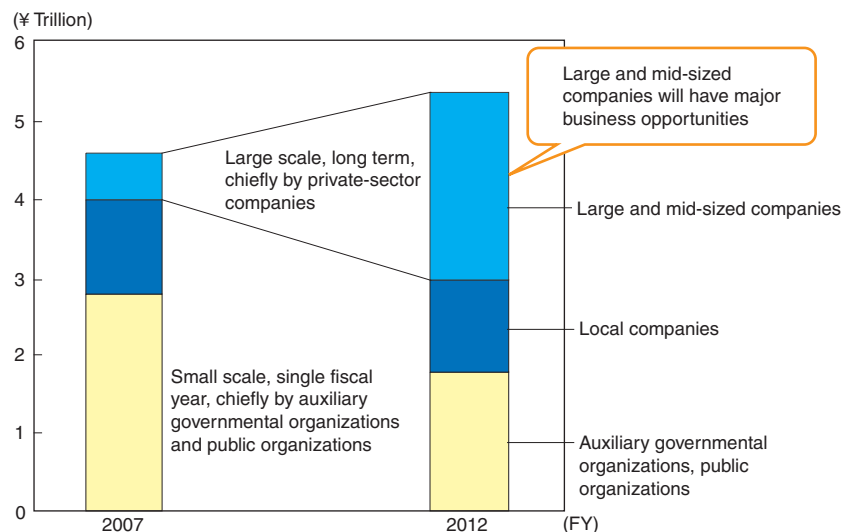
Table 2. Overview of Japan’s Public Support Service Market

(Unit: ¥ billion)

Classification	Outline	Sub-classification		Market Size in FY 2012	Major Participants
Facility service	Management and operation of public facilities owned by local governments	Educational and cultural facilities	Cultural centers, meeting halls, museums, art museums, kindergartens, libraries, sports facilities	1,195.6	Suntory Publicity Service, Kyoritsu Group, Japan Convention Services, Congress Corporation, AKTIO, J-Com, NOMURA, TRC, Libnet, Daishinto, Maruzen, Konami Sports & Life, Central Sports, Nippon Athletic Service, Mizuno Wellness
		Welfare facilities	Nursery schools, welfare centers, senior nursing homes, day service centers	628.4	Combi, Pigeon, Benesse Corporation, Poppins Corporation, Nihon Hoiku Service, Success Academy
		Industrial, tourist and health facilities	Road management and products facilities, spa facilities, hotels	383.0	Shinko Sports, Daishinto, nespa, J-Com, Qkamura Service
		Environmental hygiene facilities	Waste treatment facilities	561.1	Takuma Technos, JFE Engineering, Mitsui Zosen Environment Engineering, Kubota Environmental Service, Ebara Engineering Service
Clerical service	Support of clerical work conducted by local governments	Citizen service	Information service (at office counters and by telephone), waste collection and recycling, school meals, school administrative and office work, public housing, public relations	770.9	Fuji Xerox System Service, Moshi Moshi Hotline, NTT Group, SHiDAX, Toyo Foods, Waseda Academy
		Back-office service	General affairs, building management (cleaning, security), official vehicle management, community buses, IT (maintenance of information systems), tax collection	273.2	Pasona, NTT Group, Daishinto, NEC, Fujitsu, JPN Collection Service, Hitachi Capital
		Social infrastructure management service	Road maintenance and repairs, park maintenance and management	447.1	Hibiya Kadan Group, local construction companies
Business operating service	Services operated by public companies	Water supply and sewerage service, industrial water, buses, subways, toll roads, parking lots, utilities		317.1	Veolia Water Japan, Nihon Hels Industry, NJS, Meidensha, Daishinto, energy companies
		Hospitals		822.2	Medical corporations

Notes: (1) Work entrusted by the national government ministries and agencies is not included. The market size is based on *Paburikku sapoto sabisu shijo nabigeta – kokyo sabisu 5-cho en shijo no minkan kaiho ga hajimaru* (Public Support Service Market Navigator – Public Service Market Amounting to ¥5 Trillion Will Start to Be Opened to the Private Sector), Public Support Service Research Group, Nomura Research Institute, (Toyo Keizai, 2008). (2) IT = information technology

Figure 2. Structural Change of Japan’s Public Support Service Market



Towards the Growth of Japan's Public Support Service Market

II Significance of Developing the Public Support Service Market

This chapter describes why it is important for Japan to develop the market of public support services offered by private-sector companies. I believe that the ultimate meaning of these efforts is the realization of innovation in public services.

The first element of innovation relates to innovation in terms of entities that provide public services. Local governments that have so far functioned as service providers should become service purchasers (commissioners) to select, on behalf of users (citizens), the entities that can provide the best services. After procuring such services, local governments are expected to supervise whether these services are conducted appropriately.

The second element of innovation concerns innovation in terms of the quality of public services. Public services offered by local governments are often not at all at a satisfactory level in various aspects such as service conduct and performance, service content and service hours. The involvement of private-sector companies offering support services is expected to lead to significant improvements in the quality of services.

The third element of innovation relates to innovation in terms of human resources who provide public services. Work positions currently filled by public officials will be opened and new employment opportunities will be created for local areas. People who work in the

capacity of temporary staff or part-time staff could be transferred to support service companies where they can serve as regular employees. Based on the expertise that support service companies have in the development of human resources, workers could be given broader authority, which would increase their technical skills and enable them to be highly motivated in conducting their respective duties.

III Advantages of Developing the Public Support Service Market

This chapter explains the advantages that public support services can bring about while introducing actual cases in which such services are effectively utilized.

1 Concentrated Use of the Resources of Local Governments for Their Core Functions

Local governments must deal with a number of issues—a declining birth rate and increasingly graying society, regional revitalization and fiscal reforms, to name just a few. By outsourcing services, local governments can assign core functions such as work to formulate plans on a concentrated basis to their personnel who are currently engaged in offering services to citizens.

Takahama City Total Service, Inc., which is located in Takahama City, Aichi Prefecture, was established in

Table 3. Business Activities of Takahama City Total Service, Inc.

Service Classification	Business Activities
Information services for the City Office	Information services for the Citizens' Affairs Division, the Taxation Division and Water Service Division, and general information services
Management of public facilities	Management of the Ikiiki Hiroba Welfare Facility, the Tokai Kaikan Children's Center and the Agricultural Center, management of construction work, management and operation of community centers, management of the Kawara Museum, management of libraries, management and operation of the Women's Cultural Center, management of the Clean Center Garbage Treatment Facility, management of the Vocational Training Center, management and operation of the Kasuga-An Tea House, management of the Kinuura Crematory
Medical treatment clerical work	Review of medical service charge statements, clerical work for city hospitals
Providing meals	Providing meals for elementary schools, junior high schools, nursery schools and day service centers
Janitors	Janitors for elementary schools, junior high schools, nursery schools
Support for clerical work	Enclosing and forwarding documents, data processing for health service centers, management of recipients of medical benefits for seniors, management of recipients of child allowances, support for accounting work, support for clerical work of sewage services, support for management and clerical work of recreational facilities
Water supply services	Reading water meters, collecting water service charges
Driving official vehicles	Chauffeur the mayor, driving buses
Traffic support, crime prevention	Traffic safety promotion, traffic safety and crime prevention activities
Cleaning	Cleaning of the Ikiiki Hiroba Welfare Facility, the Takahama fire station, and the Takahama marina
Merchandise sales	Selling goods at museum shops and medical shops, automatic vending machines, general merchandise sales, automobile leasing

Source: Compiled based on the website (as of July 2008) of Takahama City Total Service, Inc.

Table 4. Change in the Number of City Employees of Takahama City, Aichi Prefecture

(Unit: Persons)

Fiscal Year	1996	2006	Change
Number of city employees	471	368	Decrease of 103
Number of employees of Takahama City Total Service, Inc.	98	236	Increase of 138

Source: Compiled based on material released by Takahama City

1995 with a 100 percent investment by Takahama City in pursuit of the goal of having no manual workers employed by the city. As shown in Table 3, this company is engaged in a wide range of business activities such as providing information services and managing public facilities. The company also provides services for organizations other than city offices and private-sector companies.

As indicated in Table 4, Takahama City was successful in considerably trimming down the number of city employees over a ten-year period, from 1996 to 2006. On the other hand, the number of employees of Takahama City Total Service Inc. increased. Because the increase in the number of these employees exceeds the reduction in the number of city employees, it can be assumed that services that are more thorough are now being offered to citizens. At the same time, the city estimates that the move amounted to a cost reduction of about ¥400 million.

2 Improvement of Quality of Public Services

(1) Enhanced plan/service content

Generally, private-sector companies adopt flexible concepts in offering services to increase customer satisfaction and to attract a greater number of customers. It is difficult for governmental offices to adopt such flexibility. For example, at the public facilities that Suntory Publicity Service Co., Ltd. operates as the designated manager, the following efforts are being made to largely increase the rate of use of the facilities (Table 5).

Table 5. Increases in the Rate of Use of Facilities through Operation by Private-Sector Companies

(Unit: %)

	Facility	Increase in the Rate of Use after Introduction of the Designated Manager System
A	Museum	123
B	Hall	132
C	Hall	111
D	Hall	124
E	Hall	111
F	Library	346

Source: Compiled based on material released by Suntory Publicity Service Co., Ltd.

- (1) Providing lectures with citizen participation
- (2) Conducting outreach activities to implement cultural events in places other than the relevant facility
- (3) Improving website design
- (4) Implementing events to open facilities free of charge

(2) Effective utilization of human resources by multi-skill development and service improvement

Private-sector companies pursue both the effective utilization of human resources and service improvement. In some cases, the same employees perform tasks that were handled by different employees in the past in order to continuously improve services.

For example, in the Daishinto Group that operates school meal centers in Sendai City, Miyagi Prefecture, the employees in charge of cooking also handle deliveries, enabling them to hear the opinions of service recipients first-hand and to improve services such as the menu.

(3) Service improvement by taking advantage of the economies of scale

Tokyo's Itabashi Ward has comprehensively outsourced the management of 25 recreational facilities such as gymnasiums, pools, baseball diamonds and tennis courts to Konami Sports & Life. Because of high customer satisfaction, the number of users has increased significantly, from 1.41 million per year to 1.65 million per year.

Comprehensive outsourcing of the management of all of the related facilities owned by the ward to a single company brings about various benefits that lead to improved service. Specifically, services are provided consistently and at the same level throughout all facilities, planning abilities and the ability to attract users are increased, skilled employees are available, the same reservation system can be applied and users can contact a single office with inquiries.

3 Increasing the Efficiency of Public Services

(1) Using private-sector management expertise to reduce cost and increase revenue

Private-sector companies make the utmost efforts to eliminate waste and to increase the revenue from use

charges in order to generate profits. To continue improvements, they collect data on revenue and the extent of user satisfaction on a monthly basis. Local governments and auxiliary governmental organizations lack these activities.

(2) Reducing costs by using economies of scale

Comprehensive outsourcing can facilitate cost reductions by taking advantage of economies of scale. This is because the number of employees can be adjusted according to actual situations such as during peak and off seasons, office supplies and fuel can be purchased collectively, employees in charge of general affairs can be assigned in such a way as to cover all facilities, internal control work processes can be standardized and the same system can be used for all facilities. Some private-sector companies use mobile phones for employees to clock in and out. Business management expertise accumulated by private-sector companies can also be fully utilized.

(3) Reducing costs by assigning employees to multiple tasks

In many cases, local governments assign personnel to meet work requirements during busy periods. However, private-sector companies strive to reduce costs by assigning employees to multiple tasks and by flexibly transferring them to sections where the need for workers is high.

4 Developing Human Resources Engaged in Public Services

(1) Standardization and enhancement of education and training programs

Daishinto Inc., which operates throughout the country, gives priority to employee education and training programs. Because the processes and content of personnel management, training, education and guidance are standardized through such training programs, work content is consistent, thereby enabling the company to provide high-level services.

The method adopted by Suntory Publicity Service to develop human resources is also interesting. The company has divided its nearly 1,000 staff members who work at offices located all over Japan into groups to conduct case analyses and role playing. In addition, training programs are provided according to roles and fields, such as new recruit training, follow-up training, service training and manager training. These training programs contribute to not only skill acquisition but also to increased loyalty and motivation.

(2) Transfer from public organizations increases motivation

In Erimo Town, Horoizumi County, Hokkaido, all temporary employees of the town office have been trans-

ferred to Daishinto to which work was outsourced. Within Daishinto, they are treated as regular employees.

The number of local governments that have put an end to auxiliary governmental organizations and transferred temporary and part-time employees working at such organizations to private-sector companies at the time private-sector companies were designated as managers has gradually been increasing. Because employees in unstable positions become regular employees, the scope of their authority expands and they have more options to select jobs. It is also possible for them to be promoted to managerial positions, thereby increasing their motivation.

5 Contribution to Regional Economies

(1) Expanded employment opportunities and increased sales in regions

Many employees of support service companies are recruited locally. Daishinto, where about 100 employees work in Erimo Town, is the second largest employer in the town, next to the town office. In Takahama City Total Service as well, most of the 236 employees (as of fiscal 2006) are young females, housewives and seniors who live in Takahama City.

When services can generate revenues from usage charges, the efforts by private-sector companies to attract customers can lead to increased sales. Typical examples are spa facilities and hotels, which bring about positive economic effects to regional businesses.

(2) Tax payments to local governments

Daishinto established its offices in areas where work is outsourced on a large-scale basis, and has been paying taxes. The taxes can be valuable sources of revenue, in particular for small local governments.

IV Issues to Overcome in Developing the Public Support Service Market

While public support services can be developed into a huge market, and can bring about a variety of advantages, as explained in Chapter III, the number of private-sector companies participating in this market is currently limited. This chapter explains the issues hindering the active participation of private-sector companies.

1 Lack of Skills on the Part of Local Governments Issuing Orders

(1) Interest leans toward cost reduction

Local governments have a greater interest in reducing costs than in improving the quality of service. In many cases of outsourcing, they limit the discretion of contractors and require that the number of employees

necessary to perform the work remain unchanged, while reducing the costs of maintenance and management. Their price-oriented attitude in the bidding process also poses a problem.

(2) Specifications based on expected achievements are difficult to prepare

Local governments often do not have explicit ideas and/or data on the results to be achieved and the tasks to be generated by outsourcing, work volume and the costs involved. The situation continues in which they are unsure of what should be included in specifications and they are unable to estimate appropriately.

Relatively few local government officials consider the use of private-sector companies for implementing reforms in work and service quality.

(3) Outsourcing takes place without implementing work reforms

In many cases, local governments do not fully implement work reforms that should be performed before outsourcing, such as separating core governmental work and others, and outsource entire specific existing activities on an as-is basis. Similarly, before deciding to use the designated manager system, they neither fully examine whether the relevant facility is necessary to begin with nor consider whether the relevant facility should be operated directly by the local government.

Each individual section responsible for the relevant facility issues an order, often failing to consider improving work efficiency and the quality of service by combining all related tasks beyond section and/or department boundaries.

2 Inadequate Understanding of the Need for Continued Business Operations by Support Service Companies

(1) Lack of consideration to the disclosure of the expertise held by private-sector companies

Even if private-sector companies ask local governments not to disclose portions related to their own expertise such as plan/proposal documents and business plan documents, some local governments treat such portions as subject to information disclosure. They have a tendency to be indifferent to maintaining the confidentiality of the expertise held by private-sector companies.

(2) Established practices and established mechanisms that diminish management efforts of private-sector companies exist

Incentives are often not provided in terms of profit. This is particularly true in the cases of contracts for facilities that are intended to attract people. This means that even if a private-sector company increases the operating rate of the facility as well as the number of visiting customers, such efforts simply result in an increased workload. This

situation provides no incentives to private-sector companies to make efforts by using their own ideas.

Even if a private-sector company can acquire revenue from usage charges, the company is often not given discretion to conduct appropriate management, such as changing charges according to seasons and/or time frames.

Another example is that because libraries are customarily operated free of charge, it is difficult to operate businesses to earn profits at libraries, such as stores and coffee shops.

(3) Asset/equipment ledgers and repair records are not kept

In the field of facilities management in particular, there are many cases in which ledgers listing assets, equipment and repair records are not kept. This causes a problem when work is transferred to private-sector companies because it is difficult to identify unneeded equipment, inconvenient systems or malfunctioning equipment.

(4) Low awareness of the need of private-sector companies to secure reasonable profits

Generally, in entering into outsourcing contracts, local governments have little appreciation of allowing private-sector companies to secure a certain percentage of the profits. In many cases, they require the return of any surplus generated by the efforts made by private-sector companies.

3 Ambiguities and Inconsistencies in Systems Applied to Outsourcing

(1) Different interpretations of systems

Private-sector companies that plan to operate business on a nationwide basis often become confused concerning the different systems applied by local governments. For example, some local governments require a designated manager to pay municipal corporate taxes, but others do not. Some local governments require a designated manager to attach a revenue stamp to the designated manager agreement, but others do not. As such, the interpretations of system operations are not consistent among local governments and tax offices.

In addition, the format of business plan documents that must be submitted differs depending on local governments. Furthermore, specific account items applied to indicate revenue and expenditure differ from generally accepted accounting practices in private-sector companies. These differences require time and labor that might otherwise be considered unnecessary.

(2) Public-private partiality in providing subsidies

Even though private-sector companies often provide equivalent services as those provided by local governments and auxiliary governmental organizations, they

sometimes cannot receive subsidies provided by the national and local governments simply because they are private-sector companies. There are also cases in which preferential treatment is given only to auxiliary governmental organizations and social welfare foundations in leasing land and/or buildings, and in which auxiliary governmental organizations are exempt from income taxes.

4 Lack of Mechanisms Addressing Treatment of Employees when Outsourcing Takes Place

(1) Ambiguities remain between contracted workers and dispatched workers

With the enactment of the Worker Dispatch Law (full name: Law for Securing the Proper Operation of Worker Dispatching Undertakings and Improved Working Conditions for Dispatched Workers), a clear distinction has been made between dispatched workers and contracted workers. However, cases are often found in which, although work is being conducted under a work entrustment contract, the actual situation is extremely akin to a worker dispatch contract.

For example, under the interpretation that the entrustment of water supply and sewerage work falls under the category of concluding a work contract, such work was not included in the 26 designated jobs requiring special skills at the time the Worker Dispatch Law was enacted. Nevertheless, the actual situation is very close to dispatch work.

Some local governments shelved their decisions to outsource meal service to private-sector companies by considering that it would conflict with the Worker Dispatch Law. Depending on the interpretation of who has what authority, moves to adopt outsourcing are sometimes hindered.

(2) Workers employed at low wages

In particular, when a private-sector company acquires a contract through bidding that involves a low budget or low price and receives limited revenue from a local government, the company often employs workers at low wages or in an inappropriate status, such as not treating them as regular employees.

5 Inadequate Understanding of Advantages Brought about by Outsourcing

Strong opposition is often raised to outsourcing by related municipal officials, labor unions, auxiliary governmental organizations, citizen groups, local companies benefiting from public services and so on.

Local governments and private-sector companies often lack the effort to fully explain the advantages to be brought about by outsourcing to citizens.

V Activities Necessary to Develop the Public Support Service Market

An environment has generally been established to facilitate outsourcing by local governments, which consists of the introduction of PFI and the designated manager system, and the enactment of the Market Testing Law (Law concerning the Reform of Public Services by the Introduction of Competition), and participation of private-sector companies in this field has started to increase. Nevertheless, as explained in Chapter IV, many issues still remain to be dealt with. This chapter describes the matters that must be addressed by the public sector as well as by the private sector to develop a sound public support service market (Figure 3).

1 Actions Required of Local Governments

The actions required of local governments that issue orders for outsourcing can be summarized into seven items. Depending on the actions to be taken, the market environment will be largely improved. A citywide approach is necessary to strategically promote outsourcing, rather than limiting activities only to certain services or some departments/bureaus. For this purpose, a person exclusively responsible for outsourcing should be assigned. In Yokohama City, Kanagawa Prefecture, the city established the Co-Creation Promotion Division in April 2008 to facilitate collaboration with the private sector on a dedicated basis. A person in the private sector was appointed chief of this division. I hope that similar approaches will be taken in other areas in the future.

(1) Implementing outsourcing together with work reforms

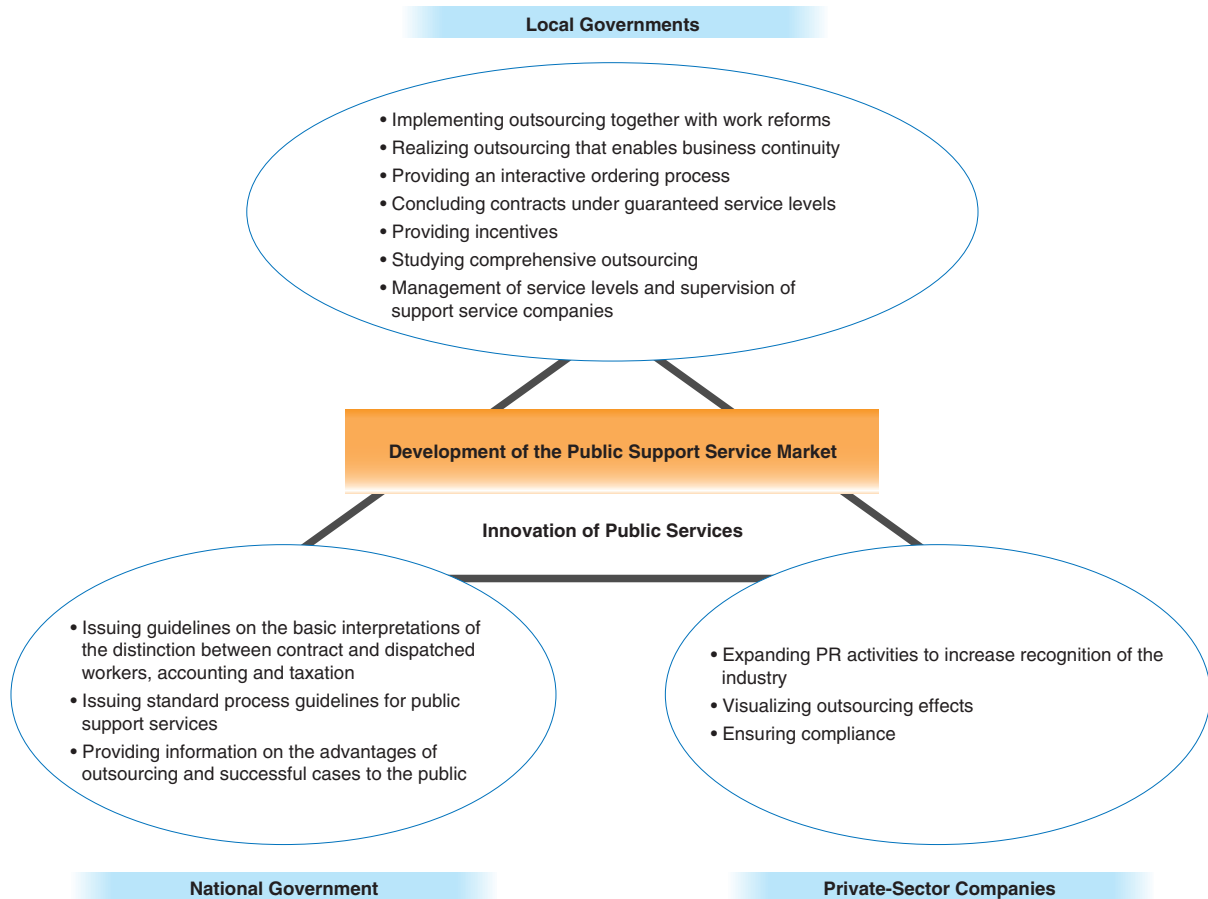
Before undertaking outsourcing, local governments must separate core work from non-core work, design work reforms to be realized through outsourcing and study citywide comprehensive outsourcing.

(2) Realizing outsourcing that enables business continuity

Prior to outsourcing, asset/equipment ledgers must be reviewed. The equipment requiring repairs during the outsourcing period and the equipment necessary for providing services must be identified so that a local government and private-sector companies can confirm such assets and equipment. Upon such confirmation, the cost and methods for necessary repairs and maintenance should be included in the service specifications.

In addition, in requesting quotations, local governments should identify the volume of work and the cost involved and should give consideration to reasonable profits that are needed for business continuity. An order

Figure 3. Actions of the National and Local Governments and Private-Sector Companies to Develop a Sound Public Support Service Market



should be issued in such a way that private-sector companies can continue the delivery of services.

(3) Providing an interactive ordering process

Before issuing an order, a local government should talk to a number of qualified private-sector companies and identify their respective strengths and weaknesses. In addition, prior to the preparation of specifications, it is also effective to invite proposals from multiple private-sector companies.

Specifications should not be too detailed and should include portions in which private-sector companies can exercise their originality and creativity.

The method⁴ adopted by Tokyo’s Suginami Ward, Chiba’s Abiko City and Saga Prefecture in studying outsourcing also merits attention. In this method, local governments explain their work activities in advance and invite proposals from private-sector companies. This is an effective method for deepening mutual understanding.

(4) Concluding contracts under guaranteed service levels

In the specifications, the quality of service should be ensured by means of the use of outcome indicators in the service level agreement (SLA). The guaranteed items often indicated in the SLA include that emergency

response time is no greater than 30 minutes, and that user satisfaction is level 4 or higher. Determining guaranteed service levels between both parties enables the measurement and assessment of the quality of service.

(5) Providing incentives

When private-sector companies achieve results that exceed the goals, such efforts should be reflected in the profits and/or benefits given them. A scheme that gives such incentives should be introduced. Some example methods include: (1) enabling private-sector companies to earn usage charges and (2) increasing designated management fees, etc. for the next fiscal year by an amount corresponding to the increase in the number of customers.

Another method would be to expand the scope of discretion of private-sector companies to increase their revenues. Examples include permitting private-sector companies to conduct profit-making businesses by using the relevant facility, etc. within the range in which such business does not conflict with the intended purposes of the facility, and enabling private-sector companies to vary usage charges depending on time frame or season.

(6) Studying comprehensive outsourcing

Comprehensive outsourcing of multiple facilities and/or services to a single private-sector company not only

contributes to the improvement of services to users but also offers many advantages to the private-sector company such as enabling it to reduce the cost of management required for the facilities and/or services. In addition, it could also bring about advantages to local governments such as reduced time and labor required for contracting procedures and reduced work management cost. This approach of comprehensive outsourcing deserves more attention than is currently given.

(7) Management of service levels and supervision of support service companies

As a commissioner of public support services, a local government is required to appropriately manage service levels and supervise support service providers. For this purpose, it is desirable to establish a third-party committee within the local government to evaluate services and supervise support service providers.

For the service levels to be properly managed, the results must be examined monthly, semiannually and annually based on the SLA, and a service evaluation must be conducted annually. Currently, local governments apply various methods for evaluation, costing private-sector companies much time and labor. To the maximum extent possible, standardized methods of evaluation should be adopted throughout the country.

Specific activities for the supervision of support service providers include the examination of a company's financial status, which is now conducted for the selection of construction work contractors, and the establishment of a system requiring a guarantor and/or a cash deposit. It is also necessary to provide a system in which a provider that continues to provide inappropriate services and/or adopt improper employment procedures can be changed by the recommendation of a third-party committee or other appropriate organization.

2 Actions Required of the National Government

On the part of the national government, certain necessary systems must also be established.

(1) Issuing guidelines on the basic interpretations of the distinction between contract and dispatched workers, accounting and taxation

Currently, depending on each local government, the basic interpretations on the distinction between contract and dispatched workers, accounting and taxation differ. Guidelines on standard interpretations should be established and published.

(2) Issuing standard process guidelines for public support services

Currently, the implementation of outsourcing is based on the decisions of each local government. Each competent authority of the national government has issued respec-

tive guidelines on such activities of local governments. Specifically, the competent authority is the Ministry of Internal Affairs and Communications for the designated manager system, the PFI Promotion Office of the Cabinet Office for PFI and the Office for Public Service Reform of the Cabinet Office for market testing. In addition, the Ministry of Land, Infrastructure, Transport and Tourism has jurisdiction over sewerage service, the Ministry of Health, Labour and Welfare has jurisdiction over water supply service and the Ministry of the Environment has jurisdiction over waste treatment. Each of these ministries has issued respective guidelines.

To support local governments in implementing outsourcing effectively and appropriately, the national government should issue standard process guidelines covering such matters as SLA, risk sharing, incentives and service assessment.

(3) Providing information on the advantages of outsourcing and successful cases to the public

Under the basic policy of pursuing private sector initiatives, the national government should provide extensive information on the advantages of outsourcing and successful cases to gain a greater understanding of outsourcing among the general public.

(4) Issuing guidelines and establishing a system to facilitate personnel transfer as necessitated by outsourcing

The national government should prepare and issue guidelines on the method of issuing orders to facilitate the transfer of local government employees to private-sector companies when undertakings are transferred to them. Specific measures include the adoption of selection criteria by local governments in which the transfer of local government employees to companies offering support services is considered a priority matter as a means of smoothly transferring undertakings and in terms of ensuring business continuity, and in which the acceptance of local government employees is regarded as a points-earning matter in examinations to select support service providers.

In the UK, the Transfer of Undertakings (Protection of Employment) Regulations (TUPE) preserve employees' terms and conditions for a fixed period when an organization is transferred to a private-sector company or when a local government's employees are transferred to a private-sector company. Japan should consider the establishment of a similar system.

3 Actions Required of Support Service Companies

Further efforts are also required on the part of companies offering support services to maintain appropriate levels of services. One method to this end would be that the industry consisting of these services establishes an

accreditation system for companies offering such services at appropriate or higher levels.

(1) Expanding PR activities to increase recognition of the industry

Most local governments are poorly informed about companies that offer public support services. To provide information to such local governments, each company should strive to conduct appropriate PR activities and to explicitly describe the services it offers. It is also effective to conduct industry-wide seminars and similar events.

(2) Visualizing outsourcing effects

Support service companies should provide information in an easy-to-understand manner to local governments and citizens on matters that were improved after the start of services by private-sector companies such as increased usage rates and increased levels of user satisfaction and employee satisfaction.

(3) Ensuring compliance

Support service companies should strengthen their management systems such as internal control and the protection of personal information. In addition, companies must provide training programs to ensure that their employees and/or the employees of subcontractors do not act inappropriately.

As explained above, respective actions are required of the national and local governments and private-sector companies to develop the public support service market. The period from fiscal 2008 to fiscal 2010, when the effective period of designated managers will expire for many facilities and moves to re-designate or newly designate managers will take place in many local governments, will be a crucial period for determining whether activities to innovate public service can flourish in each area.

This paper was based on discussions held at meetings of the Public Support Service Study Group whose members include Keisuke Murakami, the Commerce and Information Policy Bureau of the Ministry of Economy, Trade and Industry, Toshiyuki Kinoshita, former mayor of Saga City, Tokyo's Sugunami Ward, and private-sector companies (Daishinto, Suntory Publicity Service, TRC, JP Holdings, Nihon Hels Industry, Konami Sports & Life). I sincerely appreciate the views and opinions expressed by these members at the meetings.

Notes:

- (1) *Paburikku sapoto sabisu shijo nabigeta—kokyo sabisu 5-cho en shijo no minkan kaiho ga hajimaru* (Public Support Service Market Navigator—Public Service Market Amounting to ¥5 Trillion Will Start to be Opened to the Private Sector), Public Support Service Research Group, Nomura Research Institute, Toyo Keizai Inc., 2008
 - (2) “2005 Survey on Specified Service Industries,” the Ministry of Economy, Trade and Industry, 2006
 - (3) “The Number of Dispatched Workers Increased by 26% over the Preceding Year to 3.21 Million Persons—Results of Compilation of Fiscal 2006 Business Reports of Worker Dispatch Business,” the Ministry of Health, Labour and Welfare, December 28, 2007
 - (4) Specifically, the method adopted by Tokyo's Sugunami Ward is referred to as the “Suginami Administrative Service Privatization Proposal System,” the method adopted by Chiba's Abiko City is called the “Proposal-Type Public Service Privatization System” and the method adopted by Saga Prefecture is referred to as the “Proposal-Type Public Service Improvement System.”
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