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# Dual Character of Agency and Good Governance: in the case of IAA in Japan

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# Outline

- I. Object , problem and purpose of the research
  - II. Analytical viewpoint
  - III. Characteristics of governance in IAAs
  - IV. Towards good governance in IAAs
  - V. References
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# I . Object , problem and purpose of the research

- a. Object
  - b. Problem
  - c. Purpose
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## a. Object

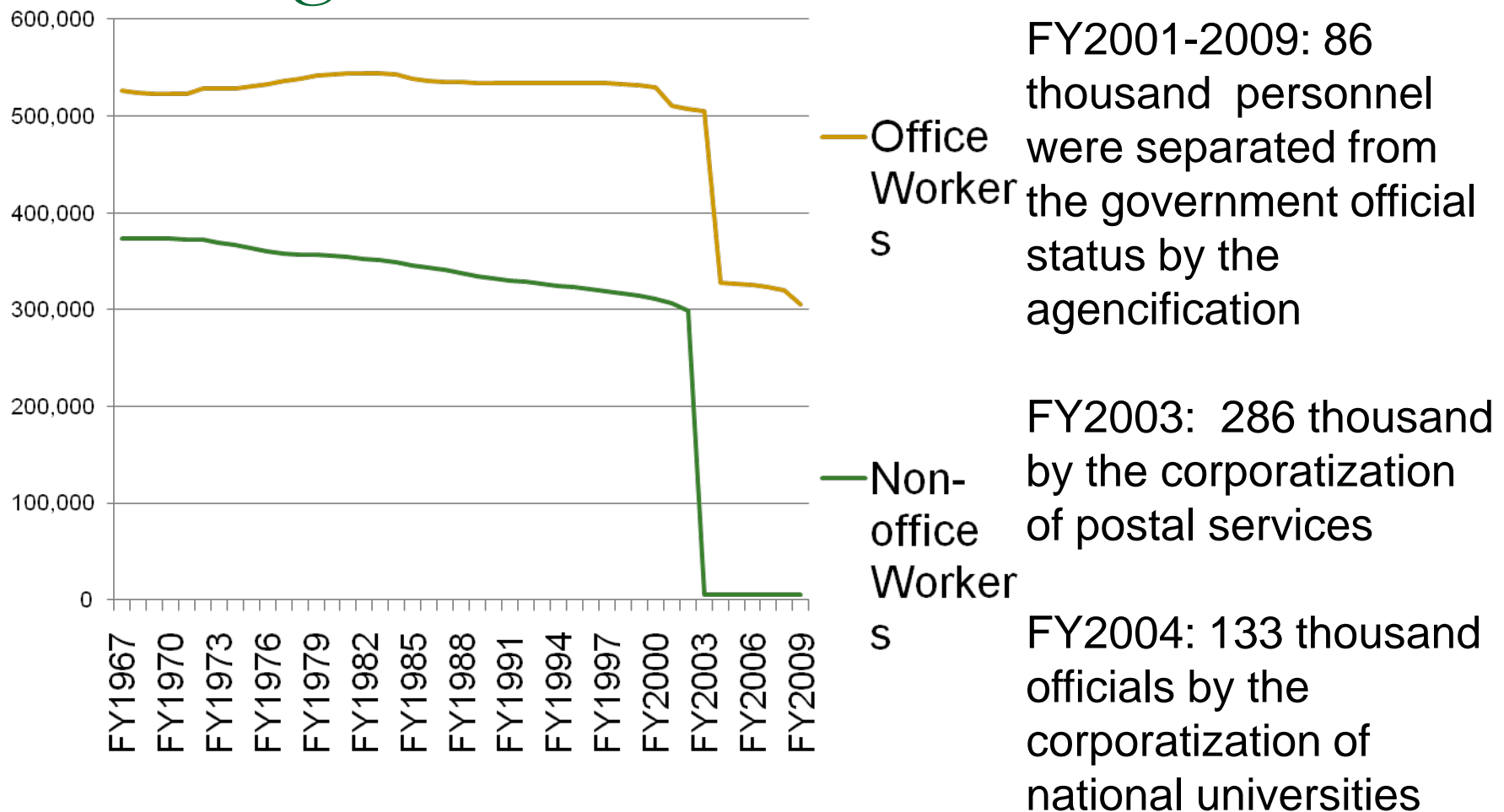
1. Public sector reforms and agencification
    - i. Public sector reforms and NPM
    - ii. agencification and the various forms (OECD 2002)
  2. Creation of IAAs in Japan as counterpart of agencification
    - i. IAAs(independent administrative agencies ) as a means of central government reforms in 2001
    - ii. Next step agencies in Britain as a model of IAAs:Common and different aspects(Tab.1)
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## b. Problem

1. Two characteristics of the NPM theory and external/internal reforms of the public sector
  2. Two intentions to create IAAs
    - i. reduction of the public sector as external reform
    - ii. improvement of efficiency and transparency in the public sector as internal reform
  3. reasons of analysing internal reform of IAAs
    - i. actual limits of external reform
    - ii. wasteful structures of IAAs as scandals due to tender system and appointments of retired officials
    - iii. A propose about reforms of IAAs by Japanese Government and its issues: reinforcement of governance in IAAs
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# Fig.1 Changes in the numbers of central government officials



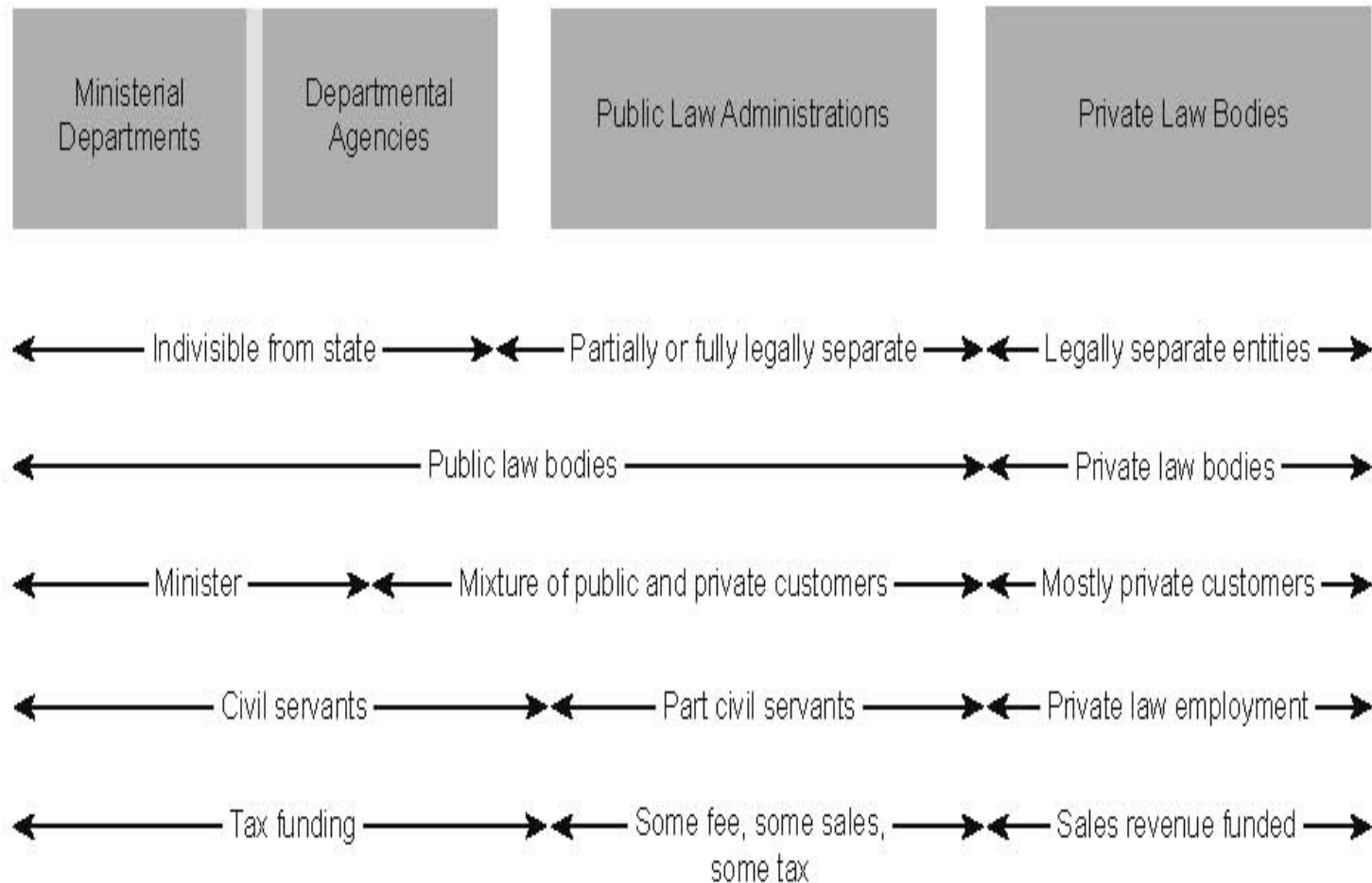
Note: Excluding defense personnel.

# Tab.1 A comparison of IAAs in Japan and Next-step agencies in Britain

	IAAs	Next-step agencies
Degree of Separateness	Separation from ministries	Internal organizations in ministries
Aim	To reduce the public sector and to Increase efficiency and quality of service	To increase efficiency and quality of service
Duty to the parliament	Non—duty to the parliament	Duty of reporting to the parliament
Range	Public institutions as well as public corporations	Only public institutions, neither NDPB(Non departmental public bodies) nor Quango

Source: Fuke, et al(1999)

# Fig.2 Executive Central Government





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# A brief history of IAAs

- April 1.2001: 57 public institutions(in such areas as research, museum , inspection) separated from ministries into IAAs
  - April 1.2003: 41 public corporations changed into IAAs
  - As April 1.2008:101
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## c. Purpose

1. To analyse characteristics of IAAs from the view point of comparative governance
  2. Thereby to seek an alternative governance of IAAs
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## II. Analytical viewpoint

### a. Definition and classification of governance

1. Definition
2. Classification : two types and two dimensions
  - i. Corporate and public
  - ii. External and internal

### b. Two models of corporate governance

1. Shareholder-based
2. Stakeholder-based and its variation: employee-sovereignty model

### c. Two models of public governance

1. Bureaucracy-based
  2. Democracy-based
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## Tab.2 Types and models of governance

type model	corporate governance	public governance
shareholder/ bureaucracy	Business corporations in USA	Many public organizations
stakeholder/ democracy	Business corporations in Germany	? not illustrated

# Tab.3 Two models of corporate governance

Model	Shareholder-based CG	stakeholder-based CG
Sovereignty	Shareholders	Stakeholders
Ends	Shareholder value=maximum of share price	Fair distribution of profit among stakeholders
External G.	Capital market( esp. M&A)	Capital market, participation of stakeholder in decision-making
Internal.G.	General Meeting, Board of Directors(outsider Directors)	General meeting , board of directors(outsider directors from stakeholder)
Account system	Business accounting	Business accounting + social accounting
Auditing	Auditor	Auditor (outsider auditor from stakeholder)

# Tab.4 Two models of public governance

Model	Bureaucracy-based PG	Democracy-based PG
Sovereignty	Bureaucracy(ministries)	the people
Ends	Formally, Public Service, substantially, self-interest of bureaucracy	Public service
External G.	Parliament(weak)	Parliament(strong)
Internal.G.	Ministries	Ministries, participations of stakeholders
Account system	Government budget	Government budget
Auditing	Board of Auditors	Board of Auditors, participations of stakeholders

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# Definition of IOG and its components

## ■ Definition

- ❑ governance as the process whereby societies or organizations make their important decisions, determine who has voice, who is engaged in the process and how account is rendered (IOG 2006)

## ■ Components

- ❑ Sovereignty (who participates in decision-making)
  - ❑ End (for what and for whom)
  - ❑ Accountability (who checks and how).
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## III. Characteristics of governance in IAAs

- a. Governance in IAAs as a mixture of corporate and public governance
  - b. Contradictions between the two aspects of governance in IAAs
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## a. Governance in IAAs as a mixture of corporate and public governance

### 1. The aspect of corporate governance

#### i. characteristics of business corporations

- Introduction of business techniques
- business management method
- business accounting system

#### ii. shareholder-based model

### 2. The aspect of public governance

#### i. characteristics of public organizations

- Control by competent ministries
- supported by public subsidies
- provision of public service

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#### ii. bureaucracy-based model

## b. Contradictions between the two aspects of governance in IAAs

1. Weak control of parliament and strong control of competent ministries
2. Strong control of ministry by target management as well as by complicated evaluation systems and weak autonomy of the management (inefficient)
3. Monetary (efficiency and financial performance) and non-monetary (quality of public service) evaluations
4. Business accounting system and budget plan
  1. calculation for shared profit and for government asset
  2. statement of providing costs of administrative service: its components and role for cutting cost

## Tab.5 Actual governance of IAAs: A mixture of shareholder-based model of CG and bureaucracy-based model of PG

	Actual IAA-G.
Sovereignty	Bureaucracy(ministries)
Ends	Formally, Public Service, substantially, reduction of government subsidies, self-interest of bureaucracy
External G.	Parliament(weak), ministry and two tier evaluation committees
Internal.G.	Competent ministries , boards of directors
Accounting system	IAA accounting(slightly different from business accounting) + public service cost accounting
Auditing	Auditor

## Tab.6 Comparison of business, government and IAA accounting systems

	Business Accounting	Government Budget	IAA accounting
Object	Business Corporations	Ministries	IAAs
main purposes	①to calculate shared profits ②to make clear accountability for management of entrusted assets	①to disclose budgets and their operations, ②to calculate and classify government assets and their changes	①to disclose operations of IAAs ②to contribute to performance evaluations of IAAs ③to fix profit or loss
form of book keeping	Double-entry bookkeeping	Single-entry bookkeeping	Double-entry bookkeeping
Methods of measurement	accrual method	cash method	cash method
financial statements	P/L, B/S statements of shareholder's equity and cashflow	Statements of annual revenue and expenditure as well as assets	P/L, B/L., statements of income, cash flow and providing costs of administrative services

Source: Okamoto(2008) and others

# Tab.7 Statement of providing costs of administrative services in IAAs

Component	Explanation
Operating cost	Expenses in P/L minus self-revenues
Equivalent to depreciations outside P/L	Depreciations from assets invested and subsidized by the government
Opportunity cost	①(Investment and subsidies by the government) multiplied an interest rate of the government bonds ②Equivalent to rental fees for the use of unpaid government asset by IAAs

Source: Explanation by the IAA evaluation committee

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## IV. Towards good governance in IAAs

- a. Division of management and operations between business and public fields
  - b. Introduction of stakeholder-based model and democracy-based model
  - c. Need to explore a new public accounting system adapted to a. and b.
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