

# **Frontiers of Public Administration**

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# **New Public Management in Japan: Achievements since the mid-90s**

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## **SUMMARY**

1. The New Public Management (NPM) in Japan was initially tried and implemented in local governments such as Mie Prefecture and Fukuoka City in the mid-1990s. The central government followed in their path.
2. The NPM initiative started with the disclosure of government information, policy evaluation and performance measurement, and outsourcing and contracting out. However, Japanese government is managed under a strict command and control style (C&C). Tools and ideas were implemented mainly in a way which rarely created conflict with C&C. Therefore, ideas such as delegation of power to the frontline workers and customer orientation were not fully implemented. In other words, E&E style (encouragement and empowerment) was not recognized as key element of NPM.
3. If we use the analogy of the computer, NPM means change of an operating system (OS) from a traditional bureaucratic system to a more dynamic one driven by an incentive mechanism. Only with such a fundamental change, can NPM function, but, so far, NPM in Japan is a movement to introduce and run new application software (AS) on the traditional OS of C&C.
4. Strict regulation on personnel management and budget spending are big obstacles for Japanese NPM. Without deregulation, NPM will be just a new management gadget.
5. NPM in Japan is necessary in society, as well as inside the government. Power and authority should be delegated from central to local government. Government should delegate public service to communities and Not-for-Profit Organizations (NPOs). Japan needs NPM both inside and outside of the government.

## **Contents:**

1. Fact: NPM movement since 1995
2. Result: Conflict with traditional OS (Operational System) of government
3. Lessons and issues toward the future

NPM is a theory and practice developed in Europe. Its key concepts include: (1) result orientation, (2) customer orientation, (3) introduction of incentive mechanism and market competition, and (4) delegation of power to the frontline.

Since its introduction into Japan in the mid-1990s, NPM has been widely supported by leaders, but its implementation has been limited. In this article, I will examine the following questions: How was it introduced? How was it supported and experimented with? Why was it not fully implemented? I will also discuss what the next steps should be.

## **FACT: NPM MOVEMENT SINCE 1995**

Consultants and journalists in Japan introduced NPM around 1995. In January 1995, Noritsu Kyokai, a consulting firm, translated and published Japanese version of "Reinventing Government" by

David Osborne and Ted Gaebler. Mr. Masayasu Kitagawa, a new governor of Mie, read it and was impressed. Since then, he has started to promote NPM. "The Nikkei Business", a major weekly business magazine, also reported best practices of several municipal government reforms in the U.S. around the same time. This article triggered the idea of "running government like a business".

Since the mid-1990s, new types of governors and mayors who refused to receive support from any political parties were elected. Mr. Kitagawa was one of them. Most of them supported NPM and used NPM as a basic principle for administrative reform. They started to disclose government information to the public. They emphasized the importance of results for taxpayers. They also used the word of "customer" so that government employees would consider the needs of the taxpayer, rather than internal rules and procedures.

Some of them, such as Mr. Kitagawa, Mr. Hiroya Masuda (Governor of Iwate Prefecture) and Mr. Hirotaro Yamazaki (Mayor of Fukuoka City) also introduced Total Quality Management (TQM). They asked business leaders for advice and sometimes hired business management consultants.

In the case of Mie Prefecture, Noritsu Kyokai, was hired by the local government. They proposed a unique performance measurement system that is named "Task-Project Evaluation System (TPES)". This method required serious research on effectiveness and efficiency for all tasks and projects at the division level. In TPES, process, purpose, expected outcome, output and input (budget and staff) were disclosed. They used TPES information as a catalyst to initiate serious discussions about the mission and value of the work. "TPES" had a very simple structure. Mie prefecture disclosed all TPES information sheets to the public. Newspapers occasionally published articles on TPES. All these factors helped "TPES" be accepted in local governments around the country in a few years. Not many of them, however, introduced "TPES" as a tool of TQM or bottom-up improvement activity. They were rather fascinated by the idea of evaluation and outcome measurement so that they used it as a new tool to cut the budget. Although "TPES" was not originally designed for budget control, because of this, its image as a budget control tool grew. Anyway, the national boom of "TPES" initiated the new age of "evaluation" in government management. Therefore, for most of officials, NPM means disclosure and evaluation rather than performance improvement, delegation and encouragement. They did not try to eliminate internal red tape, and they did not feel the need to shift from C&C to E&E.

However, there are several exceptions. In Fukuoka City, a special committee for reform was organized. The chairman was Mr. Ishii (Chairman of Japan Railways Kyushu). All members had working experience at private companies. The committee recommended that the mayor start TQM at the division level. This movement was later named the "DNA movement". This approach was widely supported by employees and media.

At the central government, NPM was recognized as an initiative mainly after 2000 under Koizumi Administration. Until then, the central government just followed the movement at the local government. They passed new laws such as the Government Information Disclosure Law and Government Policy Evaluation Law. They were also keen on combining ministries.

In 1997, Prime Minister Hashimoto initiated central government reform. He led the merger of ministries. He successfully reduced their numbers from 21 to 13. In Hashimoto Reform, the Japanese version of the British agency system was also installed. However, these instruments were not systematically integrated. The concept of NPM was not yet authorized. Overall, limited investigation of NPM was done in the 1990s at the central level.

In 2000, Mr. Heizo Takanaka, Minister of Economic Affairs and Financial Institution, undertook an initiative to rationalize government spending. He used NPM as a principle to streamline spending and organization. He pushed the cabinet offices to announce the installment of NPM. Research on NPM theory and best practices at local government started. For example, the Ministry of the Post, Telecommunication and General Administrative Coordination organized a working group of scholars on NPM. This group proposed a strategy to apply NPM in Japan. However, no specific action has been taken yet.

Overall, NPM in Japan has been led and promoted by governors, mayors and consultants. Western theories and best practices in the US were widely shared and supported, but implementation was

limited to disclosure and performance measurement. The expectation surrounding NPM was sometimes of budget cuts. The importance of productivity improvement through delegation of power, incentive mechanisms and E&E were not understood well.

## **RESULT: CONFLICT WITH TRADITIONAL OS (OPERATION SYSTEM)**

Visible achievements of the NPM movement since the mid-90s are as follows:

- (1) Disclosure of government information was established as a standard procedure. Transparency of government activity and spending became an important discipline both inside and outside the bureaucracy. Reflecting this, the number of bribery cases reported to the authorities increased.
- (2) Evaluation became an important practice. Traditionally, the Japanese government emphasized the importance of planning, but, now, evaluation became more important. In the policy-making and budgeting process, explanation of the “outcome”, “output” and “input” was required. New organizational divisions for evaluation were established at all ministries and most of the local governments.
- (3) Evaluation contributed to the reduction of government spending. The evaluation report was used to rationalize budget allocation of specific tasks and projects. In Mie Prefecture, the amount of reduction was about \$473 million between FY1996 and FY2000.
- (4) The term of “expected outcome” was generally used in the policymaking process. Without adequate rationale, any new policy is not accepted.
- (5) At the local government level, “customer orientation” became one of the key principles for management. Indicators such as waiting time or openness became key management and communication tools.
- (6) NPM and the idea of “running government like a business” are widely supported by the people. Unions are not reluctant to learn from NPM.
- (7) Respect for the management skill of private companies was established among bureaucrats. Outsourcing and privatization also began in such areas as building operation, clerical jobs and logistics.
- (8) Business leaders and scholars began participating in the policy making process. Several ministers appointed under the Koizumi Administration were not life-time politicians. In each ministry, the number of political appointees was increased.
- (9) Special committees appointed by the prime minister, or governor or mayor were often organized so that they could propose out-of-the-box solutions. For example, Prime Minister Koizumi appointed the “Privatization Committee of Japan High Way Corporation” in 2001. They proposed a radical plan of privatization.
- (10) News coverage of the reform at local government increased. Major papers and TV rarely reported reform at local government until then. Since the late 1990s, governors such as Mr. Kitagawa, Mr. Yasuo Tanaka (Governor of Nagano) and Mr. Shintaro Ishihara (Governor of Tokyo) have become popular nationwide. They also influenced parliamentary elections. Political parties cannot neglect their opinions.

On the other hand, NPM in Japan did not realize the following aspects:

- (1) Delegation of power from central to local government is still limited. Prime Ministers since



Hashimoto have consistently repeated the importance of power delegation to the local government, but achievements are very limited to peripheral areas. Efforts to delegate authority, budget and taxation began in 2003, but, ministries are reluctant to do so.

- (2) The importance of the shift from C&C to E&E is not yet fully understood. There is a strong fear of power abuse by frontline employees. The necessity of having incentives for a change process is not well recognized as well. The reasons behind this are (i) the rigid rules in personnel management and budget spending, (ii) denial of the individual responsibility and initiative at bureaucracy, and (iii) politicians and people expect strict command and control management of bureaucrats reflecting recent skepticism about their behavior and abuse of the power.
- (3) A results-orientation is widely accepted, but, improvement/ achievement is limited. This is mainly because the evaluation criterion is still on due process. They are not based on rationales deriving from benefit of taxpayers.
- (4) Evaluation is conceived as a one-time-shot inspection rather than as a continuous process of PDS (Plan-Do-See). The following two factors can explain this. The Government Policy Evaluation Law did not clarify the difference between performance measurement and evaluation/inspection. The idea of "organization learning by trial and error" was not accepted in traditional rigid legal structure.
- (5) Because of the serious budget deficit, the expectation of NPM reform was mainly budget reduction. As a result, activities such as TQM were not well considered.
- (6) In the UK, NPM came after privatization and installment of the agency system. NPM was the last resort to change the government after these radical change efforts. In contrast, NPM is introduced as a start kit tool of change in Japan. Because of this, the concept of NPM was vague in Japan.
- (7) Because of the lifetime employment system, leaders at government and scholars have no experience in working outside their organization. They cannot develop strong confidence on "business management skill" and its relevancy to government.
- (8) Scholars regard NPM as an Anglo-Saxon model of public administration. Some of them think it is not applicable in Japan where German-French style of public law is established.

In conclusion, Japanese government leaders agreed on the introduction of NPM. They welcomed the idea of "running government like a business", but in reality, only limited management tools such as information disclosure and an evaluation system were introduced. Serious budget deficits, bribery scandal cases and illegal spending issues drove reform in the 1990s. To recover credibility, government started to learn from the business and the reform of Western countries such as the US and the UK. But, they made cherry picking of some management tools. NPM was thus converted to a handy toolbox to regain power and credibility for traditional bureaucratic management.

## **LESSONS AND ISSUES TOWARD THE FUTURE**

Efforts since the mid-1990s to implement NPM in Japan helped us uncover fundamental issues in the Japanese public sector.

Lessons from the last 8 years are as follows:

First, NPM reform is more effective and applicable at the local government where the value for taxpayers' money is more visible. In the central government, the notion of customer orientation is not so applicable since they rarely get direct response from beneficiaries of public services. Results also take

place more often at local level. The future model of Japanese NPM will be developed from the local government, particularly around TQM activities.

Second, NPM has been understood as a set of new management tools rather than as fundamental change of OS. NPM, in reality, provided an opportunity to introduce various business management tools such as government information disclosure, policy evaluation and performance measurement, and outsourcing including private finance initiatives (PFI). However, after several years, leaders now understand that NPM goes beyond introduction of business tools.

Third, in the Japanese NPM movement, the need to shift from C&C to E&E was rarely accepted. In fact, the introduction of some business management tools even reinforced C&C. A typical example was TPES. Originally in Mie prefecture, TPES was designed to encourage frontline staff to start PDS by themselves. But, in the central government and in other local government, it was used by budget controllers to proactively inspect inefficiency. Leaders should pay more attention to the benefit of total productivity increase by adapting E&E.

Fourth, NPM, by its nature, does not fit in a rigid authorization and institutionalization process. However, the Japanese government uses a very strict authorization process for any initiatives. This is a big risk. The more NPM is supported, the more it becomes institutionalized; then E&E elements may be eliminated. To some extent, the institutionalization of NPM is necessary, but maintaining its impromptu live management style is a big challenge.

Finally, NPM movement is required in the society as well as in the government. Government should delegate more public service to the community, NPOs and people. The central government should also delegate its work and authority to local government.

“P” of the NPM means “public.” The real challenge for the Japanese NPM is to redefine what “public” means. To do that, clarification of the roles of government, NPOs and the local community is necessary. Only with such an effort will NPM inside the government function well.

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