

## **Path to Development of NPO Employment**

-- Seen from Human Resources, Financial and Legal Perspectives --

### **Summary**

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## Background and Objectives of This Research

This research covers volunteers as well as paid employees at non-profit organizations, known as NPOs. We conducted surveys over three years from 2003 to look into the realities of NPO workers<sup>1</sup>.

Past research has concluded that personnel, financial stability and legal system development are required for the development of NPOs. But how to develop NPOs has been left vague. This report discusses NPO development issues dividing them into three groups -- ① personnel, ② finance and ③ legal systems. On the first two groups of issues, we analyzed data from the past surveys and shed light on the realities through interviews. On the third, we compiled the legal systems for volunteers in foreign industrial countries in a bid to consider their implications for Japan.

## Outline of Surveys

This report uses data from the following three surveys. Regarding the interviews, see the list of interviewees at the end of each chapter.

- ① "Survey on Vocational Development and Creation of Employment Opportunities at NPOs" (survey of organizations), January 2004. Questionnaires were sent to all 14,003 NPOs in Japan (as of the end of 2003). Responses were obtained from 3,501 NPOs, or 26.0% of the total, and 3,495 of the responses were valid.
- ② "Survey on Cooperation with Business Enterprises and Use of Paid Volunteers" (survey of organizations), September 2004. This follow-up survey covered the 3,495 valid respondents from the previous survey. Responses were obtained from 1,012 NPOs, or 29.0%, of which 1,011 responses were valid.
- ③ "Fact-finding Survey on NPO Activities and Employment" (survey of individuals), July 2005. This survey covered paid employees and volunteers at the 1,011 NPOs that provided valid responses to both the above surveys<sup>2</sup>. Responses were obtained from

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<sup>1</sup> Analyses of data from the survey are compiled into the following reports: "Diversifying Working Styles and Social-Labor Policy -- Self-employed Subcontractors and NPO Workers," Labor Policy Research Report No. 12, JILPT [2004]; "Salaried Staff and Volunteers at NPOs: Their Working Styles and Attitudes," Labor Policy Research Report No. 60, JILPT [2006]; "Working Styles of Paid Volunteers -- Their Views and Realities," Akiko Ono [2005], Labor Policy Report Vol. 3, JILPT

<sup>2</sup> The number of questionnaires sent to each NPO was based on the above NPO surveys. These questionnaires for individuals were sent to NPOs for distribution to NPO workers, who were asked to mail responses directly to us. At least two questionnaire copies (one for the director general and another for an ordinary worker) were sent to each NPO. The maximum number of copies for one NPO was 21 (one for the director general and 20 for ordinary workers).

2,224 individuals, or 17.7% of the total, and, 2,200 of the responses were valid.

### **Overview of This Report**

Part 1 of this report, titled "In Pursuit of Personnel Enhancement," deepens the analysis of the director general and paid employees who occupy key positions in an NPO. As baby-boomers are expected to play a key role in expanding NPOs after their mass retirement, it also looks into the possibility of baby-boomers working for NPOs.

Part II, titled "In Pursuit of Financial Stability," discusses the impact of NPOs' growing cooperation with the government sector under systems for government-awarded public service contracts and for designation of managers for public facilities. In particular, it looks into how these systems affect NPO workers. It also examines the possibility of NPOs' cooperation with business enterprises, which is expected to promote NPOs' financial and personnel stability.

Part III, titled "Legal System Development -- Implications of Foreign Legal Systems," reviews how NPO workers, including volunteers outside the employment system, are protected in foreign industrial countries. A summary of each part follows:

#### **1. Working Conditions and Willingness to Continue Working -- Seen in terms of Organizational Factors -- (Chapter 1)**

This chapter gives findings from interviews conducted at NPOs in ordinance-designated major cities in Japan.

At NPOs that have employed new paid workers since their foundation, demand for responsible employees who can work exclusively for their NPOs has been growing in line with the expansion of their operations. The key factor allowing these NPOs to employ paid workers has been a revenue expansion attributable to public service contracts with the government sector. They seem to have been steadily accumulating relevant experience.

The careers and working conditions of survey targets, together with working conditions of NPO employees, indicate that remuneration for NPO workers is far less than indicated by their working hours. Changes in government contracts and subsidies have directly affected remuneration in some specific cases. Remuneration could be improved depending on such changes, but the continuation of improved levels cannot be secured. In this sense, government contracts and subsidies remain a destabilizing factor.

NPO activities for individuals' career development tend to originate from housewives' social activities. In a sense, NPO activities are a goal of housewives' social activities.

Workers who got involved in NPO activities while working at business enterprises and subsequently moved to NPOs are in the minority.

The premise for NPOs is that the allocation of remuneration should be based on the cost of living as a decisive factor. Therefore, those who participate in NPO activities tend to share a concept that they should give larger shares of a pie to paid NPO workers. Those who can accept such a concept may continue to participate in NPO activities. In order to sustain NPO workers' satisfaction with consideration for the cost of living, however, personal and working conditions may have to be kept transparent. This may grow more difficult as the number of workers increases at any NPO. Specific cases show that large NPOs have introduced very systematic mechanisms to determine hourly wages.

We confirmed that multiple NPOs were reflecting personal performance and achievements in remuneration. Meanwhile, we come across the fact that some NPOs believe that it is undesirable to assess job performance and achievements and reflect them in remuneration in so far as the provision of job opportunities is one of the missions of NPOs, and that assessment is difficult depending on systems for the division of labor. The former belief is an NPO specific one. The latter can be related to personnel assessment at business enterprises and may depend on the organization size.

The following were cited as labor management measures required under insufficient remuneration: ① enhancement of education and training, ② flexible working hours and ③ respect for voluntarism.

## **2. Careers, Roles and Working Styles of NPO Director Generals (Chapter 2)**

It has been realized that unique management methods are required for NPOs, as their organizational characteristics are different from those of long-existing business enterprises or government agencies. It is noted that whether an NPO would be successful or not may depend largely on its leader's capabilities. This chapter used 483 NPO director generals as samples to analyze their attributes, careers, operations and views.

Among NPO director generals, males are more prevalent than females. The average age for director generals is slightly higher than for other NPO workers. Their academic backgrounds are better, but their household income is not so different from that of other NPO workers. Most NPO director generals are paid workers or unpaid volunteers. There, paid workers are, on average, younger than unpaid volunteers. Most NPO director generals work exclusively for their respective NPOs. At smaller NPOs, director generals in areas other than healthcare, medical services and welfare relatively tend to

double as business enterprise operators or self-employed workers. A similar tendency is seen in their previous careers. Those with lengthy management and administration experience tend to account for a greater share of NPO director generals than of other NPO workers. NPO director generals tend to belong to areas other than healthcare, medical services and welfare. Meanwhile, those with sales and clerical experience occupy the largest share of director generals at NPOs in healthcare, medical services and welfare areas. A large portion of director generals at NPOs with larger number of staffs have experience of working as paid workers at NPOs. More than 30% of the director generals who have served as paid workers at NPOs have served at their respective NPOs since their foundation. The percentage is higher for NPOs in healthcare, medical services and welfare. As for the motives for launching NPO activities, NPO director generals are more willing to contribute to society or utilize their experience and capabilities than other NPO workers. They are more interested in social activities than other paid NPO workers or volunteers. Many of them take part in social activities (particularly, volunteer and civic activities), even outside their respective NPOs.

NPO director generals can be classified into three groups -- ① those engaged in various management operations for an entire organization, ② those specialized in clerical operations including accounting, and ③ those giving priority to frontline operations. In the first group, those with management experience account for a higher proportion than others. In the second group, those with experience in main career track such as personnel management and general affairs as well as in other clerical jobs account for a higher proportion. In the third group, welfare, education and other specialists account for a higher proportion.

A chronic problem with NPO director generals is long working hours. NPO director generals engaged in overall organizational management are the most likely to work long hours, followed by those engaged mainly in frontline operations and those engaged primarily in clerical operations. Despite long working hours, NPO director generals are not willing to quit their jobs. Instead, they give priority to the continuation of their operations and further development of their organizations.

### **3. Participation of Older Persons in NPOs (Chapter 3)**

While labor shortages are expected to emerge from the falling birthrate and aging population in Japan, women (particularly those who have left labor-market because of raising children) and older persons are expected to make up for such shortages. This is true also of NPOs and the NPO labor market. Older persons' lifestyles in particular are

attracting attention as baby-boomers reach the mandatory retirement age. Many may be reemployed. Even without being employed, older persons can utilize their skills accumulated over the ages, knowledge and experience to contribute to society. NPO sector also have a demand for labor.

People in their 50s and 60s account for a large portion of NPO participants. Those in their 60s account for more than 50% of male NPO participants. A breakdown of NPO participants' non-NPO jobs by gender and age group indicates that some 60% of males in their 60s have no job other than their current NPO operations. The percentage is far smaller for younger males. This means that many males retire at the age of 60 to engage exclusively in NPO activities. A high proportion of the female NPO participants aged 40 or over are housewives.

When considering the positioning of older persons at NPOs, we questioned NPOs about the reasons for recruiting people aged 50 or over as paid employees. Major reasons cited by NPOs include these persons' abundant experience and knowledge, and their greater eagerness or willingness to work. This means that NPOs place great hopes on older persons, viewing them as instantly useful.

A frequently cited reason for refraining from participating in NPO activities is the lack of access to information. NPOs themselves should put out information. At the same time, public agencies and NPO supporters should enhance the mechanism for matching NPOs and information-rich locations. Many NPO participants have been directly solicited by acquaintances or friends to take part in NPOs. Older persons who have already retired may not look for NPO positions. Persons who usually have opportunities to get involved in local communities in some ways may be better expected to take part in NPOs.

Working styles are reportedly diversifying as employment grows more fluid. If NPO activities were to become one of these diverse alternative working styles, Japan would have to have various NPO activities recognized socially and to create a mechanism for people to take part in NPO activities.

#### **4. Diversity of Financial Resources and NPOs' Independence – Centering on Effects of Increasing Revenues from Government Contracts -- (Chapter 4)**

Stable financial resources are required for NPOs to continuously provide public goods and services to the society. Financial stability is indispensable for securing excellent personnel. Financial resources for NPOs may include investment of assets, profit-making operations, subsidies from the government, grants from business enterprises, contributions from individuals and business enterprises, membership fee

income from personal and corporate NPO members, and financial aid from other NPOs. This chapter focuses on what financial resources NPOs should and can secure for their independent operations.

One finding from the survey data is that most NPOs are still small, even four years after the legislation of the NPO Law. As a result, regular employees still account for a small share of total paid employees at most NPOs. According to earlier U.S. studies, non-regular employees are less motivated to provide high-quality services because of their nature of liquidity. Training of mobile employees is costly and limited, consequently, it indicates that such employees may degrade the quality of services. Some U.S. studies note that NPOs tend to assign non-regular employees to operations for government contracts, since they are uncertain about how long government contracts will continue to be awarded. This tendency has not been clearly seen in Japan. This may be because Japanese NPOs are still developing as both regular and non-regular NPO employees increase.

The second finding is that NPOs with income from government contracts have better employment conditions than others. An analysis of survey data indicated that income from government contracts allowed NPOs to improve employment environment and conditions, including insurance arrangements. As NPOs expand their size through operations under government contracts, their working conditions improve. The other means that NPOs with better working conditions are better prepared to undertake public services under government contracts.

While income from government contracts accounts for a large share of NPOs' revenues, no NPO is guaranteed continuation of such income. When government contracts are lost, NPOs may fail to transfer income from such contracts to their mainstay operations. The loss of government contracts may thus work to destabilize NPOs. Government contracts may also bring about extraordinary constraints on the assignment of employees, working hours and management of facilities. These constraints may work to change NPO operations. Eventually, government contracts may affect the employment environment and working conditions. NPOs may consider such effects in taking actions. If NPOs were to establish financial and employment infrastructure and provide high-quality goods or services continuously, they would have to refrain from depending heavily on limited financial resources and diversify financial resources while maintaining public confidence.

## **5. Effects of Government Contracts on Employment and Working Conditions of NPOs -- Analysis of Specific Cases -- (Chapter 5)**

This chapter focuses on government contracts as assistance to NPOs for stabilizing employment environment. In recent years, government contracts have been widely defined as including assistance to NPOs. Government contracts have an aspect under which they can directly provide NPOs with relatively larger financial resources and can be utilized as a growth promoter for NPOs. However, some people note government contracts could distort NPO missions and destabilize income while contributing to the expansion of NPOs' organizational basis and improvement of their services. Government contracts may allow NPOs to secure financial resources for their operations and personnel. At the same time, however, government contracts could have serious adverse effects on NPOs, including an increase in working hours and changes to overall NPO operation.

For this chapter, we conducted hearings to analyze whether government contracts could bring about ① changes in job-creation and employment styles, and ② personnel transfers (qualitative and quantitative changes in operations).

To sum up, the survey results has the following three policy implications:

- ① Government contracts can contribute to growth (formation) of NPOs. Therefore, the government sector should enhance cooperative relations with NPOs through public service contracts to help expand NPOs. Specifically, the government sector should review overall operations and increase the range of services that can be provided to NPOs.
- ② If government contracts meet NPO missions, NPOs may be able to simultaneously implement their original operations and services under government contracts. Therefore, they should pay attention to the division of labor among workers and to quantitative changes in overall services.
- ③ NPOs that provide services under government contracts should train sub-leaders who have the skills to lead new employees to cope with the expansion of services. Consideration should be given to the consistency between their original operations and public services under government contracts.

## **6. Effects of the Public Facility Manager Designation System on NPO Operations (Chapter 6)**

The system for designation of managers for public facilities, which was created in 2003, can bring both great business opportunities and risk factors to NPOs. NPOs that are designated as managers for local government facilities may receive stable management service fees. Annual fee income ranges from several tens of millions of yen to several hundreds of millions of yen, allowing revenues at an NPO to expand several



times. If large-scale public facility management services are utilized for NPOs' expansion and development of their original missions, the public facility manager designation system will be expected to bring about great opportunities for NPOs' development.

At the same time, however, the system could force NPOs to focus on management of public facilities at the expense of their original missions. The system may also have a great impact on staff employment. An NPO designated as a manager of a public facility may increase full-time employees for several years to implement the management service. If the NPO loses the designation on the regular designation review, however, it may have difficulty continuing employment of some employees.

Treatment of employees may not necessarily improve under the public facility manager designation system. In fact, this chapter's analysis found that many NPOs that are believed to have expanded revenues and operational size by becoming designated managers for public facilities have failed to improve the treatment of employees. This is one of the big problems with the public facility manager designation system.

Not only in Japan, the dependence of NPOs on the public sector increases, with their original missions being diluted, as the public-private partnership develops. In Britain, for example, not only the Treasury's Cross-Cutting Review but also research and other policy recommendations have called for NPOs to adopt the principle of full cost recovery to secure sufficient funding for personnel.

Japan may have to continue careful analyses on the effects that the introduction of the public facility manager designation system and various other institutional reforms would have on NPOs' management, employment and treatment of staffs, including wages, etc. amid changes in public-private relations. If institutional problems are found, NPOs as well as the government should give them timely consideration and implement solutions.

## **7. Potential Partnership between NPOs and Business Enterprises (Chapter 7)**

NPOs' cooperation with business enterprises is far more limited than their cooperation with the government sector. We questioned NPOs on priority management strategies for the next three years. The percentage of NPOs citing their deeper partnership with the government sector was 20 points higher than that of those citing their deeper partnership with business enterprises. Some people may believe that the non-profit operations of NPOs conflict with the profit-making operations of business enterprises. As the interest of business enterprises in their social responsibility and

contributions has grown, however, they are now expected to cooperate increasingly with NPOs in making social contributions.

Key analytical findings follow:

- ① Those having some relations with business enterprises account for 57.9% of the NPOs covered by our survey. NPOs having relations with small business enterprises account for the largest share of them, at 74.4%. NPOs may tend to have relations with regional small business enterprises, as their operations are usually local.
- ② Of the NPOs covered by our survey, 60.2%, the majority, said, "We have yet to consider any partnership with business enterprises but would like to form such a partnership depending on opportunities." Only 18.6% said, "We have no intention to form partnerships with business enterprises." A similar percentage of NPOs were positively looking for business enterprises as possible partners.
- ③ The most frequently cited objective for NPOs' partnerships with business enterprises was the "acquisition of technology, skill and management know-how," chosen by 33.6%. Other objectives included the "acceptance of volunteers," cited by 30.0%, and the "acceptance of retirees as volunteers or employees," cited by 26.3%. NPOs thus place hopes on business enterprises as personnel providers.

How should business enterprises and NPOs promote their cooperation? The following are measures to pave the way for promoting cooperation between business enterprises and NPOs:

- ① Understanding about the significance of cooperation between NPOs and business enterprises should be promoted. It should be specified whether cooperation between NPOs and business enterprises would benefit both, along with the concrete benefits.
- ③ NPOs should provide business enterprises with information to promote their understanding about NPOs. In reality, cooperation between NPOs and business enterprises is proposed overwhelmingly by NPOs, rather than business enterprises. This may be because business enterprises have little interest in cooperation with NPOs and have difficulties in assessing NPOs.
- ③ Opportunities should be created for matching business enterprises and NPOs for their cooperation. Individual business enterprises and NPOs may have difficulties in finding potential partners in an efficient manner. A system should be created for indicating specific cases or supporting matches. Some specialized support may be required for relevant procedures.

## **9. Overseas Legal Systems for Volunteers (Chapter 8)**

Japan has no law governing volunteers. Volunteer activities are interpreted as those

done on a voluntary basis. While being socially required, volunteer activities have not been protected. Workers positioned halfway between volunteers and paid employees have emerged and their characteristics have attracted attention. Paid employees are protected as employees under the Labor Standards Law and subject to the accident compensation system. Volunteers cannot be protected unless they or their organizations join insurance schemes voluntarily. How are volunteers treated in foreign countries? This chapter introduces the legal provisions for volunteers and policies (if any) for their protection in the United States, Britain, France and Germany.

In Germany, the accident compensation system can be partially applied to volunteers. In one case, protection under the accident compensation system was provided to a person who was injured during a soccer game organized as a municipal event. A special law for volunteers establishes a legal volunteer position for young people and subjects these people to unemployment, social, accident compensation and other compulsory insurance during a period of 18 months for their volunteer activities.

In France, volunteers are divided into two groups -- unpaid volunteer workers, called "benevolat," and paid ones known as "volontariat." The former cannot be interpreted as workers subject to accident compensation and other protection systems. The latter group is protected by various safety nets under a special law for volunteers. For example, volunteers dispatched to Africa for international cooperation are given paid holidays, sickness leave and maternity leave, as well as some benefits, for up to six years. Volunteer dispatchers are required to cover volunteers with the same social security system as that for ordinary workers. Volunteers for international cooperation are protected by an accident compensation system for overseas emigrants.

Britain has no special legal provision for volunteers. Safety nets are more limited for volunteers than for ordinary workers unless the volunteers are interpreted as being workers. Some court rulings have admitted volunteers as workers. Volunteers admitted as workers have received some financial payments. A recently emerging view is that unpaid volunteers should be subject to legal provisions for equal opportunities, dignity of individuals, health and safety. The future development of this view is attracting attention.

In the United States, a large number of volunteers are utilized for public services. Legal provisions for volunteers are seen for each service. For example, there are the Domestic Volunteer Service Act and the Volunteer Protection Act for limiting volunteers' legal responsibility for accidents during their activities. Volunteers covered by these legal provisions undertake certain services as determined by the public sector. They are basically unpaid. In some cases, however, they receive some rewards. Legally, these

volunteers are interpreted as federal government employees. Other volunteers are interpreted as workers subject to legal protection, depending on employment relationship and labor characteristics.

In Japan as well, NPOs and volunteers have increasingly important roles to play, as society seeks further revitalization of regional self-help efforts and civic activities. In this sense, it would be necessary to create an environment where they are able to engage in their activities with security of mind.