The prolonged recession in Japan since the collapse of the bubble economy has caused rising unemployment and weakened regional economies. The jobless rate, which stood at 2.1 percent in 1990, had surged to 5.4 percent by May 2002. Low as the latter figure may be in comparison with that of other advanced nations, it has serious implications given Japan's system of lifetime employment and its consequently underdeveloped employment market. As the economy is decentralized, employment will increasingly be tied to local industries and self-sustaining job development rather than big businesses.

Since the government has failed to provide the services required by society as it matures, a need has developed for alternative service providers. Nongovernmental groups, such as nonprofit organizations (NPOs), are helping to furnish the necessary public services, but at the same time, society is making new demands on the workplace: being sought are broader working options for all beyond the usual patterns of full-time or part-time work. In addition to jobs for women, new employment options that allow retirees to work and contribute to their
communities are being sought. This chapter looks at the role of community business (CB), a new way of working developed mainly in the United Kingdom that may well help ease Japan's stringent business environment and activate local economies.

SOCIAL POLICY FRAMEWORK

In the post-World War II era, advanced countries developed state-based welfare systems. To this end, they increased social security-related expenditures, which required a certain level of economic growth. During the global economy's low-growth period that began in the 1970s, the concept of small government took root in some countries. In the United Kingdom, for example, the Conservative government of Prime Minister Margaret Thatcher encouraged privatization, and the severe curtailment represented by public housing expenditure was vigorously promoted. However, the increase in national expenditure was not sufficiently controlled and so, while certain services were no longer provided by the government, state agencies found themselves lumbered with subsidy and contract costs. In other words, the move to smaller government means a change in the provider of social services, but not necessarily that the role of government is reduced.

When compared with the welfare services of other industrially advanced nations, it is clear that Japan's welfare system needs to be expanded. Because Japan was not faced with a low-growth economy before developing a mature welfare system, its social policy has distinct features, namely, the elderly expect to receive care from family members; industrial policy takes precedence over social policy, with the protection of specific industries contributing to low unemployment; and company-provided—rather than public—welfare is the norm, taking the form of such fringe benefits as company-provided housing, house-renting/purchasing assistance, and low-interest loans.

But the system of company welfare, which primarily applies to lifetime employment and seniority-based systems, is beginning to collapse as the policy of prioritizing supplier protection in favor of consumer protection loses national support. And, although the expectation of family support remains strong compared with the levels found in
advanced Western nations, even this is weakening. In short, the pre-conditions supporting the welfare system are changing.

COMMUNITY BUSINESS

*The Concept*

As defined by the Community Business Scotland (CBS) Network, a CB is “a trading organization which is set up, owned, and controlled by the local community and which aims to create self-supporting jobs for local people and be a focus for local development” (Kay 2000). CBs use their profits to expand employment or benefit the community in other ways, according to the community’s location and interests.

Most CBs in the United Kingdom take the form of charities, many of which are set up as limited companies by guarantee. In Japan, however, not only are public services sometimes provided by for-profit companies—because the law allowing the incorporation of grass-roots NPOs only came into effect in 1998—but it can be difficult to distinguish between for-profit and nonprofit entities. Nonprofit entities do not pay dividends to shareholders and must reinvest any profit in their main nonprofit activity. Profits are defined as being based on business income and are the funds remaining after allocations for overhead and expenses. What makes it difficult to distinguish between for-profit and nonprofit entities is that nonprofits could in effect distribute dividends by paying their employees higher wages and for-profits can choose to pay low dividends to shareholders (Nakajima 1998). Therefore, depending on their line of business, incorporated for-profit organizations can also sometimes be considered CBs in Japan.

*The Structure*

Typically, a CB is a trading organization, meaning it does not offer gratuitous services as does a charity; it contributes to unifying a community; and it reinvests its profits in the community (Kay 2000). That said, there is no global, standard framework for CBs. In the United Kingdom, many organizations that qualify as charities have the legal...
status of a limited company and can take the form of a social cooperative (a workers' cooperative in Continental European countries). Furthermore, some NPOs have a high enterprise income ratio because they run businesses or charge for their services.

The CB concept originated in Ireland and moved to Scotland, where it evolved further. The CB model was developed in the 1980s, primarily to create jobs during a period of high unemployment in the United Kingdom. It focuses on urgent unemployment-related policy, trade activities, home-based enterprises, and employment development (Kato 1999).

According to CBS, in 1997 there existed at least 110 CBs in Scotland, employing 1,095 persons full time and 68 part time, with transactions totaling £13,670,000. This data is not insignificant in a country of only five million people. Moreover, in 1995 the U.K. city of Liverpool, with a population of about 500,000, had 34 CBs employing 130 individuals (Spencer 2000).

Comparison with Other Concepts

The concept of CB is best understood when compared with familiar business concepts such as venture business, local industry, and NPOs. One feature CBs have in common with these enterprises is meeting consumer needs. A venture business (VB) will generally have access to advanced technology and know-how, and seek to be listed on a stock exchange, although it will not necessarily bring profits to the community. The CB will also stress the importance of flotation, but in addition it will seek to generate employment in the community. As the employment situation deteriorates in Japan, it is becoming increasingly necessary to encourage all organizations to direct their energies to job creation.

In Japan, traditional enterprises in the textile, ceramics, and agriculture-related manufacturing industries are entirely focused on commercial objectives, whereas CBs focus primarily on a social mission. In addition, the former are distributing primarily manufactured goods and the latter are focusing on social services. NPOs, too, chase social objectives rather than profits but, because they do not share their profits with investors, they cannot access the capital markets for financing and, therefore, depend on donations and subsidies. Thus, NPOs
Table 1. Comparison of Venture Businesses, Community Businesses, and Nonprofit Organizations in Japan

<table>
<thead>
<tr>
<th></th>
<th>Venture Businesses</th>
<th>Specific Local Industries</th>
<th>Community Businesses</th>
<th>Nonprofit Organizations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Main purpose</td>
<td>profit</td>
<td>profit</td>
<td>social objectives</td>
<td>social objectives</td>
</tr>
<tr>
<td>Type of goods</td>
<td>manufactured goods</td>
<td>manufactured goods</td>
<td>services</td>
<td>mainly services</td>
</tr>
<tr>
<td>Type of organization</td>
<td>for-profit</td>
<td>for-profit</td>
<td>nonprofit (for-profit)</td>
<td>nonprofit</td>
</tr>
<tr>
<td>Legal status</td>
<td>incorporated companies</td>
<td>incorporated companies</td>
<td>incorporated companies</td>
<td>incorporated foundations</td>
</tr>
<tr>
<td></td>
<td>limited companies</td>
<td>limited companies</td>
<td>limited companies</td>
<td>associations</td>
</tr>
</tbody>
</table>
|                      | cooperatives       | cooperatives              | specified nonprofit corps | social welfare corpora-
|                      | (institutions)     | (institutions)            | (institutions)       | tions, etc.             |
| Stakeholders         | shareholders       | shareholders              | workers               | donors                  |
|                      | investors          | workers                   | people in the        | volunteers              |
|                      | workers            |                           | community             | people in the community |
| Way of financing     | investments        | institutional loans        | government grants    | government grants       |
|                      | loans              | (investments)             | private grants       | private grants          |
|                      |                    |                           | loans (donations)    | donations               |
|                      |                    |                           | (investments)         | (loans)                 |

Source: Compiled by author.

include a greater number of community members, philanthropists, and volunteers than do for-profit companies (Machida 2000). See table 1 for a comparison of VBs, CBs, and NPOs.

While the NPO does conduct public-benefit activities—some organizations focusing on providing relief for the poor—it does not share its profits with investors, a practice that is generally followed by CBs in the United Kingdom. In addition, some NPOs are operating beyond the community, while CBs generally only serve the local community.

Since it was very hard for NPOs to become incorporated before the 1998 enactment of the Law to Promote Specified Nonprofit Activities, and many limited or incorporated companies have also pursued social objectives, CBs in Japan do not always have the nonprofit type of corporate body. CBs are purpose-oriented organizations, and it is difficult to identify them by their juridical status (e.g., NPO status,
corporation, or welfare incorporation body). For example, in the United Kingdom many CBs qualify as charities, but it is said to be very difficult for those from Scotland to obtain charity status in England and Wales. Perhaps this is because most CBs conduct activities in areas in which existing for-profit enterprises do business. These CBs cannot qualify as charity organizations because they do not engage in activities such as those covered by NPOs. Were the requirement that profits not be distributed among the shareholders removed from the prerequisites for classification as a CB, there would be a blurring of the distinction between CBs and for-profit companies, especially service companies working to benefit the community.

**CBs in Action**

In Japan, where the government plays a major role in housing development, CB primarily provides social services such as nursing care for the elderly and childcare. And with the recent increase in unemployment, CB is expected to play an expanding role in occupational training. Following is a brief introduction of some CBs that have already generated economic success nationally.

**ARETE CHILDCARE SERVICES** Named after Princess Arete, a fairytale heroine, the organization was established in 1994 by three housewives who met at child-rearing classes in Itami city, Hyogo prefecture. The enterprise offers children a classroom, provides temporary childcare, and organizes parenting classes, but its primary focus is on temporary childcare (Matsuura 1998). The children's classes have a low student-teacher ratio, and the company's clientele numbers about 400 individuals who are registered as service recipients, 90 percent of whom are housewives and 10 percent gainfully employed.

Childcare charges were initially set rather low, but have gradually been raised to allow the enterprise to remain in business. In 1997, after attending a venture enterprise school sponsored by the Hyogo prefectural government, the manager incorporated the company and sought investors. However, because the enterprise was not set up as a for-profit organization, the views of those within the organization vary regarding incorporation. Although it is recognized that incorporation would clear the path to obtaining credit and thus reduce personal
liability, such a move would also make it more difficult to obtain government subsidies.  

NISHI SUMA DANRAN WELFARE NETWORK  This home-visit welfare service organization provides housekeeping services and has been in operation since May 1998. Based in the Nishi Suma area of Kobe city, it has its roots in the Nishi Suma Community Committee, the neighborhood organization in charge of revitalization programs following the Great Hanshin-Awaji Earthquake of 1995.

The organization covers an area of 5 acres and 10,000 households, with a population of some 24,000 people. With a range of activities that are narrower in scope than those of the average home-visit welfare service, it operates on a membership basis, the members comprising supporters who offer their services, users who benefit from the services, and those members who provide financial support. In February 2002, there was a combined total of 216 supporters and users, and 46 financial support members. Some members of the staff are full-time employees and others volunteers. Service users are charged ¥600 per hour, of which the support staff members’ remuneration is ¥500, which leaves ¥100 per hour to cover operating costs.

The network’s community service projects, such as making maps for handicapped residents, receive financial support from Kobe city. The organization has also received grants for overhead expenses, such as office equipment, from some foundations.

According to a network representative, it is hard to keep the network going financially. Two or more paid staff who coordinate activities are required and to ensure quality, those staff should be paid properly. But it is difficult to do so under the present situation.

The network obtained qualification as a specified nonprofit corporation in October 2000 in order to gain social trust.

MIYAGI ZAO SHIROISHI SKI RESORT  This ski resort in Miyagi prefecture opened in 1969 and, when the private company managing it went bankrupt in December 1997, ownership of the facility was transferred to the city of Shiroishi. However, city authorities lacked the funds to run it and could not find a private enterprise to manage it until a citizens’ group stepped forward. The citizen’s group established an NPO, Fubō Azalea, to which the city administration entrusted the
management of the ski resort in 1999. In addition to running the resort, Fubō Azalea is preserving the natural environment, increasing local awareness regarding environmental protection, and working to improve skiing-related skills.

Fiscal 1999 saw a 29 percent year-on-year increase in the number of visitors to the resort. This is because the city spent ¥200 million to install another ski lift and Fubō Azalea’s ski club membership increased to 330, with volunteers helping to provide skiing classes. As a result, the organization had a surplus that year of ¥20 million, which it donated to the city authorities. In fiscal 2000, the city further improved the facilities by adding a rest house.

The NPO’s running of the resort has, however, come into question. First, employees’ wages are much lower than when the resort was under private management, because the employees are now NPO staff. Second, the fact that the fiscal 1999 profits were donated to the city means that the resort may not be truly independent from the city administrators. Third, the city authorities’ support and investment in equipment may be considered unfair by neighboring privately owned ski resorts. This is the first time that a ski resort has been managed by an NPO, but it may not be the last.

THE KUROKABE A bank building put up in 1900 in Nagahama city, Shiga prefecture, came to be known affectionately by local citizens as the Kurokabe bank because of its black outer walls. So, when it was scheduled to be torn down, eight citizens established Kurokabe Inc. to preserve the city’s heritage, encourage the practical use of historical structures, and promote activity in the city center. The city of Nagahama together with the eight volunteers financed the company’s incorporation.

The enterprise currently exhibits and sells domestically made glass handicrafts; imports, exhibits, and sells overseas art glassware; manages a glass studio and sells original works made of glass; manages a restaurant; provides lessons in glass making and plans related events; and engages in international exchanges. Twenty-eight black-painted edifices are currently being operated by Kurokabe, which plans to list on the over-the-counter (OTC) market. The economic success it has experienced to date is the result of the highly skilled staff and management of this private-sector initiative, even though it is partly capitalized
by the city administration. Kurokabe's fiscal 1990 sales of ¥190 million and 205,000 visitors had, by 2000, increased to sales of ¥740 million and 1,898,000 visitors.

The enterprise has also set up a town planning company to conduct similar activities in the city of Esashi, Iwate prefecture. The Naga-hama city authorities opposed any investment in Esashi, so the setting up of the company caused some of the founding members closely tied to the preservation movement to resign as directors.

Nevertheless, Kurokabe Inc. has achieved great success as an enterprise and created many jobs in the community, especially for women. However, the enterprise has admittedly moved away from its original objective, to preserve the old building and original culture of the community, and is now more akin to a venture business. This underlines the difficulty in balancing social and profit goals.

Local Support Systems in Action

For CBs to be successful, local communities must be responsive. Below are introduced two kinds of local support systems for CBs.

COMMUNITY BUSINESS SUPPORT IN HYOGO PREFECTURE Since fiscal 1999, the Hyogo prefectural government has supported CBs in the area damaged by the Great Hanshin-Awaji Earthquake of January 1995. The area around Kobe suffered serious damage, 6,300 lives were lost, lifelines had to be set up, transportation networks rebuilt, and production equipment replaced. The amount of damage is thought to have totaled about ¥9,600 billion. Kobe, the main city in the region, had developed around the local harbor since it was first opened in 1868. Smokestack industries, such as shipbuilding and steel, sprang up early in the twentieth century and the city enjoyed a long period of prosperity, but, in recent years, the region's economy has been declining as a result of the stagnation of these industries. The damage caused by the earthquake had a negative effect on the region's economy, a situation that was aggravated as nationwide unemployment expanded. The region had an urgent need to create new jobs.

In fiscal year 2001, the local government thus decided to implement projects including (1) subsidizing enterprise start-ups and providing management consultants; (2) providing consulting services for new
and existing enterprises; (3) holding consultations and seminars for CB entrepreneurs; (4) establishing and managing a support center; and (5) installing a network to perform comprehensive support services for CBs. In open competition and from among several organizations, the Social Business Support Network was selected to manage the support center from 2002.

In fiscal 2001, up to ¥4 million over two years was programmed to be given to each of eight organizations operating under the first category of government projects listed above. This money was to be used to assist with start-up costs. Organizations eligible for support are decided by a specialists committee based on the following conditions: (1) an organization’s activities should meet community needs, (2) users should pay for its service, (3) its workers should receive payment, (4) it should plough profits back into the community, and (5) it should remain a business.

The support center managed by the Community Support Center Kobe opened in October 1999 to provide information for those people who wish to do something for the public good. It offers internships in NPOs, and supports those who want to float CBs.

Aside from its support for CBs, the Hyogo prefectural government has put in place a flotation advice program for venture businesses, and a management course and a course on flotation for NPOs. Table 2 briefly outlines the prefecture’s support programs for venture businesses, CBs, and NPOs.

**COMMUNITY BUSINESS SUPPORT—THE KINKI LABOUR BANK**

In 1989, the Eitai Credit Union in Tokyo, a citizens’ bank, set up a loan program patterned on the workings of Germany’s Eco Bank.

Since 1995, banks with similar loan systems have been set up in several regions and include the Yamagata Shokusan Bank in Yamagata prefecture, Ikeda Bank in Osaka, and Oita prefecture’s Oita Credit Union. In addition, a system has also been established whereby loans may be extended to NPOs: the Kinki Labour Bank started extending NPO enterprise-support loans (rōkin) in April 2000.

Under the Labor Credit Association Law, labor banks were established nationwide in the 1950s to benefit laborers. In 1998, the Kinki Labour Bank, the largest such institution, saw all seven of its associated
### Table 2. Comparison of Hyogo Prefecture's Support Programs for Venture and Community Businesses and Nonprofit Organizations

<table>
<thead>
<tr>
<th></th>
<th>Venture Businesses</th>
<th>Community Businesses</th>
<th>NPOs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education and study</td>
<td>Kickoff seminars, support seminars for women entrepreneurs, entrepreneur training seminars, venture schools</td>
<td>Community business seminars</td>
<td>Lectures on NPOs</td>
</tr>
<tr>
<td>Instruction and consultation</td>
<td>Consulting for industrialization / venture business support and instruction projects</td>
<td>Consultations for potential CB entrepreneurs / consulting services for new and existing enterprises</td>
<td>Volunteer center</td>
</tr>
<tr>
<td>Human resource introduction and matching</td>
<td>Hyogo Venture Plaza</td>
<td>Information center for job seekers</td>
<td>Volunteer center</td>
</tr>
<tr>
<td>Subsidies, grants-in-aid</td>
<td>Business plan support projects / new industry creation programs</td>
<td>Supporting community business start-ups in earthquake-damaged areas</td>
<td>Grant for voluntary activities for community revival after earthquakes / grant for Hyogo Regional Welfare Foundation's volunteer fund</td>
</tr>
<tr>
<td>Loans</td>
<td>start-up support</td>
<td></td>
<td>Support for NPOs</td>
</tr>
<tr>
<td>Investment</td>
<td>General support system / entrepreneur support system for women</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Creative small- and medium-sized enterprise creation support system</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Materials of Kobe Empowerment Center and Hyogo prefecture.

Banks merged and, by the end of March 2001, its savings totaled ¥1.35 trillion, its outstanding balance ¥92,800 million, and its client base 9,084 organizations. The bank's latest midterm management plan states its social role as building a community welfare network in cooperation with those NPOs committed to undertaking welfare work as a main activity. In all, the bank can extend a credit line of ¥200 million, with a maximum of ¥10 million available for each project.
without collateral, and an unspecified amount within the limits of the collateral valuation and of the expected amount to be paid back. NPOs can obtain loans for start-up costs and operating activities.

Up until December 2001, the bank had fielded inquiries regarding the possibility of it supporting 50 possible projects, including an insurance scheme to provide care for the elderly, a group home, and a workshop for the disabled. To date, 13 of the proposed projects have received loans. The Labour Bank has its own NPO evaluation system, which studies whether their projects serve the public good, if and how much financial support they receive from governments or contributions from individuals, and how many volunteers they have. NPOs eligible for the loan meet a certain level of this evaluation system. Given that this bank is one of the few to extend loans to NPOs, the percentage of loan applications that have been approved is relatively high. In addition, many institutions are seeking loans to construct facilities or stop-gap loans to tide them over until such time as promised funds are made available by government authorities.

CONCLUSION

The Need to Redraw Business Practices

It is necessary to differentiate NPOs, CBs, and for-profit organizations according to both the activities involved and those who benefit therefrom, rather than the ideology of the enterprises. This is especially true in the case of Japan, where the structure of the corporate system has often led for-profit organizations to set up CBs. Thus, by extension, it may be useful to rethink how a CB is defined, bearing in mind that it is the social objectives and individual programs that should take center stage, with less emphasis on an organization’s corporate aspects.

That said, any consideration of CBs from the viewpoint of social policy immediately focuses on sources of financial support, for which reason it may be necessary to impose greater restraints on the profit sharing of such enterprises. This is because shareholders who are paid dividends by a company that receives financial support from the government are indirectly benefitting from government taxes.

Also in need of change is the attitude toward the flotation of venture businesses. While such flotations are much praised in Japan, the
success rate is not high. With fewer new businesses being set up, emphasis on the medium-risk, medium-return model is needed. If the flotation of such middle-tier enterprises is to be encouraged, there will have to be a safety net: Entrepreneurs will require unemployment compensation and a larger job transfer market.

Since maintaining a balance between social and commercial objectives is difficult, especially as it is often hard for the social services that a CB promotes to attract adequate funding from corporations, the CB often has no choice but to seek out a profit itself. However, once an enterprise shifts gears and becomes a for-profit entity, it invariably tends to focus on profitable projects at the expense of its original social objectives.

Despite the existence of the Law to Promote Specified Nonprofit Activities, the pursuits in which an NPO may engage are limited. Since NPOs that support industry are necessary if CBs are to develop, the activities in which NPOs can become involved must be expanded. Were that to happen, NPOs could be set up like the Silicon Valley Network (SVN), which promotes industry in Silicon Valley in the United States.6

CBs can take any of several corporate or cooperative forms—as can be seen mainly in Europe—so it would make a great deal of sense were there an easing of the legal restrictions that apply to the structure of Japan’s cooperatives, which are mainly producer and consumer oriented. The enactment in 2002 of the law qualifying certain organizations, which nature is somewhat like mutual organizations (like alumni associations, where benefits are shared among a closed membership), as corporate bodies is meaningful. But this law offers no taxation benefits to these organizations.

Commercial financial institutions will not usually extend loans to CBs, since they do not consider profitability to be a top priority and, typically, deal in services in which profits are not high. Therefore, government capital must be made available for lending to CBs.

While the CB clearly increases employment opportunities—by allowing the elderly to continue working after they have retired, enabling women to find a job, and providing employers with further work options—unless the social objectives are met and CBs receive all-round support, the only result will be that a pool of cheap labor will have been created. Particular care must thus be taken to ensure that
the appropriate public policies are in place to prevent the marginalization of women and the elderly in the labor force.

The CB is very important in Japan, in that it is linked to community well-being, the flotation of companies, and the diversification of options in the workplace. Indications are that it may even provide the impetus for Japanese society to initiate much needed fundamental structural reforms.

NOTES

1. Moreover, since neoconservatives sought strong government under both U.K. Prime Minister Thatcher and U.S. President Ronald Reagan, national defense spending increased in both countries.
2. Profits are, however, sometimes shared by such CBs as fishermen’s cooperatives.
3. Author’s interview with a representative of Arete on March 6, 2001.
4. Author’s interview with the manager of the Nishi Suma Danran Welfare Network on March 9, 2000.
5. Author’s interview with a Kinki Labour Bank official in October 2000.
6. In this respect, the law was revised in December 2002.

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