Can NPOs Provide “Trust” in Uncertainty? : Case Study of Japanese Nonprofit Business based on Consumers’ Perspective

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ABSTRACT

In the past decade, interest in NPOs (non-profit organizations) among the general public grew very rapidly in Japan. Although Japanese NPOs are in general still small in scale and weak financially, “nonprofit business,” which competes with FPOs (for profit organizations) in the same market segment, is emerging in certain areas. How can NPOs compete favorably with FPOs? The prevailing theory suggests that, in the market where information asymmetry works disadvantageously for consumers, NPOs are perceived as being more “trustworthy” because of the “non-distribution constraint.” In this paper, we will look into particular market segments where nonprofit business has a certain presence, and focus on how consumers’ perception of “trust” affects NPOs and FPOs. Among other things, we found that reasons for which consumers feel the service to be trustworthy are different depending on whether the service is provided by NPO or FPO, and that consumers’ trust for NPOs does not necessarily come from the “non-distribution constraint.”

Keywords: nonprofit business, information asymmetry, trust, consumers’ perspective, Japanese NPOs

INTRODUCTION

Interest in NPOs among the general public has grown very rapidly in Japan in recent years. Since the law enabling incorporation of NPO was enacted in 1998, more than 20,000 incorporated NPOs were born. For progressive mayors and governors, forming a partnership with NPOs is now a fashionable thing to do. Many of the central government agencies try to involve NPOs in their policies. A number of citizens depend on care service for the elderly, child care services, social education, environmental information, peer group supports, promotion of senior citizens’ participation to the society and many other services provided by NPOs. NPOs are now an integral part of Japanese society.

However, Japanese NPOs are, in general, still small in scale and weak financially.
Excluding the “quasi” NPOs which are virtually controlled by governmental agencies, the economic activities of Japanese NPOs amount to a mere 0.08% of GDP (gross domestic product). Many NPOs are thought to be engaged in voluntary mutual help type activities with a minimal revenue coming from membership fees and personal donations. That is to say, while Japanese NPOs have been increasing its importance as a social existence, their economic role in a supposed “mixed economy” has been quite limited.

The situation may be changing. In the past several years, “nonprofit business” is emerging, at least in a certain few areas in Japan, where NPOs provide services to general consumers in competition with FPOs in the same market segment.

How can NPOs compete favorably with FPOs? The prevailing general theory suggests that, in the market where information asymmetry works disadvantageously to consumers, NPOs are perceived as being more “trustworthy” because of the “non-distribution constraint.” The main purpose of this paper is to investigate, from consumers’ perspective, effects of “trust” on NPOs in the emerging nonprofit business arena in Japan.

A body of theories on NPO has been formulated mainly in the 1970s and 1980s suggesting that NPO has a significant role to play as a viable provider of goods and services. A standard argument (e.g., Anheier, 2005) offers an explanation using the concept of government and market failures. In particular, Weisbrod (1975) pointed out that democratic governments have inherent limitations as public good provider, because governments strive to provide public goods primarily in accordance with the “median voter.” Thus, NPOs can be effective in meeting the unsatisfied demand.\(^3\) It was Hansmann (1980) who indicated that in the market where information asymmetry works disadvantageously to consumers, an opportunistic behavior would be a rational one for FPOs and hence NPOs can be more efficient service providers because of the “non-distribution constraint.”\(^4\) Furthermore works on “social capital” which becomes

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\(^3\) This Weisbrod’s theory was followed, among others, by Ben-Ner and Van Hoomissen (1993), Chang and Tuckman (1996), Feigenbaum (1980), Hansmann (1987), Kingma (1997), Salamon (1987, 1995) and Salamon and Anheier (1998).

\(^4\) This theory by Hansmann is later discussed, for example, by Ben-Ner (1986), Ben-Ner and Van Hoomissen (1993), Hirth (1997), James (1987, 1989), Ortmann and Schlesinger (1997) and
topical in a wide variety of academic fields refer to the relationship between NPOs and “trust.” For example, Putnam (1993) suggests that activities by “civic engagement” could develop “social capital” which brings “trust”. According to neo-Tocquevillian thinking, NPOs create and facilitate “trust” which is regarded as essential for the functioning of modern society (e.g., Anheier and Kendall, 2002; Offe and Fuchs, 2002; Putnam, 2000).

In next section, we will identify three different types of market segments in Japan where nonprofit business has been emerging. As it turns out, the first two of the three are brought about as a result of both government and market failures. More specifically, we will choose nursery school service and organic food certification service as our target service areas. Besides, we will look into care service for the elderly for future reference because the market is more severely controlled by law than other services. We purposefully chose these two areas with different service characteristics so that we could separate the effects caused by differences in service characteristics and differences between NPO and FPO. In addition, through the investigation on care service for the elderly, we could find out how public intervention affects “trust” toward NPOs and FPOs. We will ask consumers in these areas how their perceptions of “trust” affect their decisions on selecting services.

There are three major findings in our research. Firstly, in our two target service areas, consumers are considerably concerned with “trust” when they choose services. This is true regardless of whether the service provider being NPO or FPO, and despite the differences of services. Secondly, reasons why consumers feel trustworthiness are quite different between NPOs and FPOs. For instance, while reputation among parents is considered important for trust in the case of NPO run nursery schools, it is not so for FPO run schools. In the case that services are provided by FPO, accreditation by governments for nursery schools, and past business records for organic food certification are considered important for trust. From the results of the research on care service for

the elderly as referential investigation, we found that public intervention is more effective in getting trust for FPOs rather than NPOs. Above all, consumers trust NPO when there has been a history of substantial information sharing between the service providers and consumers. It is also found that institutional considerations such as the “non-distribution constraint” do not necessarily constitute the critical reason why consumers feel trustworthiness toward NPO.

CURRENT CONDITIONS OF JAPANESE NON-PROFIT BUSINESS

The Great Hanshin Awaji Earthquake in 1995 causing more than 6,000 fatalities represents one of the saddest moments in the contemporary Japanese history. As terrible as it were, it also marked a dawn of Japanese “modern civil society.” It is said that some 1.5 million people were engaged in voluntary activities, and the disaster demonstrated, in a very vivid manner, severe limitations of governments on the one hand, and an effectiveness of voluntary activities on the other.

![Fig.1. Growth in the number of NPOs in Japan](Source: Cabinet Office (2005).)

This turn of events triggered a social movement toward promoting NPO, resulting in
the legislation (called “Law to Promote Specified Nonprofit Activities”) enacted in 1998 allowing incorporation of NPO. To be sure, the law is quite inadequate in that it does not grant proper tax exempt status and other due advantages for NPOs. Despite those and other shortcomings, the law helped NPOs to gain a social recognition and clearer identity. As Fig. 1 shows, the number of NPOs has been increasing rapidly year by year and there are more than 20,000 incorporated NPOs in Japan in 2005. Japanese NPOs are engaged in a wide range of activities as shown in Fig. 2.

![Fig.2. Various areas of activities by NPO in Japan](image)


*Note. Sample size=2,085.*

Most of the NPOs in Japan are of small scale and have serious problems in financial security, working conditions of staff members, lack of management skills, among others. According to the sample survey conducted by Research Institute of Economy, Trade and Industry (2004) affiliated with the Ministry of Economy, Trade and Industry, the annual revenue of about 60% of NPOs is ¥10,000,000 ($US91,000 with the rate 110 yen for a
dollar) or less. Although about 76% of NPOs have full-time staff (Fig. 3), 30% of the staff members serve without pay (Fig. 4), and the average income of paid staff is less than 30% of that of FPO employees in Japan.

![Fig. 3. Ratio of NPOs Hiring Full-time Staff](image)


Note. Sample size=2,085.

![Fig. 4. Average Income of Full-time Staff of NPO](image)


Note. (1)Sample size=786. (2)The rate is 110yen for a dollar.

The economic activities of Japanese NPOs amount to some 5.0% of the country’s GDP as compared to 8.3% in the US, 9.2% in the UK and 18.8% in the Netherlands (Salamon et.al., 1999). It is to be noted that this figure for Japanese NPOs is inclusive of “quasi”
NPOs, i.e., organizations which are “non-profit” but which are virtually controlled by government agencies (thus, violating the second condition of internationally accepted NPOs given by Salamon et.al., 1999). Excluding those, Japanese NPO’s total expenditures are some ¥694billion ($US 6.3billion) and amount to only 0.08% of GDP; this figure corresponds to the market size of the two-wheeler industry in Japan (Yamauchi, 2002).

What are the current conditions of nonprofit business in Japan? In this paper, “nonprofit business” refers to income earning activities by NPOs whose substantial revenue comes from the provision of services. In particular, we are concerned with nonprofit business in a market segment where both NPOs and FPOs are competing with each other.5

Table shows the revenue structure of (incorporated) NPO’s in Japan, based on the sample survey conducted by the Research Institute of Economy, Trade and Industry (2004). Based on the data given in Table, with some other considerations, we estimate the total market size of nonprofit business (by NPOs) in Japan to be about ¥264billion ($US2.4billion).6 We note that this figure is to be regarded as only a rough estimate as it is based on the sample (of size just over 1,400) considered in Table. By far, the most prominent group engaging in nonprofit business in Japan is the group of NPOs in the “welfare” category (a subset of the “Welfare, Health and Medical Service” category in Table), presumably accounting for more than three quarters of the all nonprofit business revenue.

<table>
<thead>
<tr>
<th>Activity field of NPO</th>
<th>Membership Fees</th>
<th>Revenue from Service Provision</th>
<th>Subsidies</th>
<th>Donations</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Independent Service Provision</td>
<td>Contracting out</td>
<td></td>
</tr>
<tr>
<td>Welfare, Health and Medical Service</td>
<td>5,073</td>
<td>94,090</td>
<td>11,084</td>
<td>11,458</td>
</tr>
<tr>
<td>Social Education</td>
<td>1,399</td>
<td>14,023</td>
<td>7,468</td>
<td>2,035</td>
</tr>
<tr>
<td>Community Service</td>
<td>758</td>
<td>1,175</td>
<td>1,925</td>
<td>618</td>
</tr>
<tr>
<td>Culture, Art and Sport</td>
<td>2,829</td>
<td>3,477</td>
<td>3,276</td>
<td>1,606</td>
</tr>
<tr>
<td>Environmental Protection</td>
<td>1,240</td>
<td>2,864</td>
<td>2,782</td>
<td>2,787</td>
</tr>
</tbody>
</table>
As will be explained in more detail later on, the nonprofit business in the welfare area came into existence primarily as a result of drastic deregulations. Besides that, nonprofit business has emerged in a few other areas in the past several years or so. This could mark a start of a “bona fide” mixed economy in Japan.

As way of explanation, we want to identify the following three types of nonprofit business markets emerging in Japan. The first two are markets which are already formed, and Type 3 represents a potential market.

Type 1: “pseudo market” of social service created by government deregulation
Type 2: certification and evaluation service market created by introduction of
governmental “certification and accreditation” system

Type 3: “niche” market

In Japan, many of social services such as care service for the elderly, nursery schools, compulsory school education have long been “monopolized” by central and/or local governments. Substantial deregulations and/or introductions of new legislations have been carried out in the past several years as measures to mitigate government failure (such as budget deficits, inadequacy to meet diversified needs, loss of trust for governments etc.). As a result, a market has been created in which a variety of organizations including NPOs and FPOs can compete. This constitutes Type 1 market. We refer to it as “pseudo market” because often a market is formed under severe constraints by law and regulations.

A huge brand-new “mixed market” was born overnight when the national insurance system for care for the elderly was enacted in 2000. An elderly person is now bestowed with a certain amount of “budget” (the amount being determined by an official examination process) and he or she can freely choose a service provider. NPOs and FPOs along with various semi-governmental and “quasi” NPOs entered the market. The market size so emerged is ¥3.9trillion ($US35billion) in the year 2000 (All-Japan Federation of National Health Insurance Organizations, 2001), and the market size grew to estimated ¥6trillion ($US55billion) in the year 2004. We note, however, the actual market size from the standpoint of NPOs and FPOs is less than those figures; for instance, it is estimated as some ¥1.6 trillion ($US15billion) in the year 2000 (this figure is obtained through private communications). This is due to the fact that a part of the service provisions is limited to semi-governmental and “quasi” NPOs. The ‘market share’ by NPO, measured in terms of the number of service providers, is about 1.3% (Ministry of Health, Labor and Welfare, 2003a). As a NPO service tends to be of small scale, the market share by NPO in terms of revenue is supposed to be less than that.

The situation concerning nursery school service is somewhat similar. As a result of a drastic deregulation in 1997 aimed primarily at meeting diversified needs, NPOs and FPOs are allowed to run nursery schools. Some local governments implemented their
own version of deregulations, including a local version of accreditation and an outsourcing scheme by which NPOs and FPOs operate GOCO (Government Owned Contractor Operated) nursery schools. These measures helped a “mixed market” to be formed where NPOs and FPOs provide similar services.

The market size of nursery school, child care and other related services is ¥2.6trillion ($US24billion) in the year 2000 (Economic Planning Agency, 2000). As of October, 2001, the ‘market share,’ measured in terms of the number of service providers, by nongovernmental service providers composed of NPOs (in a broad sense, including educational corporations, religious organizations among others) and FPOs, is about 2% (Nationwide Child Care Association and Child Care Laboratory ed., 2003).

A series of educational reforms has made it possible for NPOs and FPOs to run a school, or to manage a public school under GOCO scheme. However, participation of NPOs and FPOs has so far been very limited, if not none. In medical service area, NPOs and FPOs are not allowed to provide medical services (except for very limited cases) and the market for nonprofit business is not formed yet.

While Type 1 market is the direct product of deregulations, Type 2 market is formed as a by-product thereof. As a variety of service providers enters the social service and other similar markets, where information asymmetry is inherently present, governments consider it necessary to implement a “certification and accreditation system,” in order to guarantee the quality of the service, and to protect consumers. A ‘mixed market’ is created because often service providers are required by law to undergo the certification and evaluation process, and because both NPOs and FPOs can be accredited bodies to carry out the evaluation for fee. Evaluation markets are formed, at least potentially, for higher education, care for the elderly, care for the challenged, nursery schools and organic foods.

Among Type 2 markets, the organic food certification service market merits a special

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We note that there has always been a market for testing and evaluation for various areas in Japan just like in other countries. Most of these services in Japan, however, are provided by FPOs and “quasi” NPOs (affiliated with governmental agencies). While many NPOs in Japan have been offering various kinds of information including evaluation, there are not many cases in which they do so as nonprofit business.
attention because NPO’s presence is exceptionally substantial. In Japan, as in many other countries, there is more than a few decades of history of partnership between producers and purchasers of organic produce. The partnership movement in Japan is called “Teikei” and it started in the 1970s. As needs for “organic foods” increased in the 1990s while the supply stayed at low level, counterfeits flooded the market. As it is difficult for individual consumers to tell whether the produce they pick up at a retail store is genuinely organic, a typical situation for market failure became reality. To correct the situation, Japanese government came up with “Organic JAS (Japanese agricultural standard)” in 2000 reflecting the adoption of the CODEX⁸ guidelines by United Nations in 1999, and implemented accompanying “JAS certification system.” To sell organic foods with an authorized Organic JAS label, farmers would have to have their produce certified by a certification body accredited by the Ministry of Agriculture, Forestry and Fisheries.

As of April of 2005, there are 28 NPOs, 12 FPOs and 28 other organizations offering certification service as accredited certification bodies (Ministry of Agriculture, Forestry and Fisheries, 2005). That is, the ‘market share’ by NPO, measured in terms of the number of service providers, is as high as 41%. The total market size is estimated as at least ¥605million ($US5.5million).⁹

In higher education, the mandatory evaluation system took effect in 2002, and a potential market is there; but there have been only a few entries to the market to date. In welfare service area such as care for the elderly, care for the challenged and nursery schools, where there is also a mandatory certified evaluation system, 42 NPOs, 39 FPOs, 6 local governments, 28 “quasi” NPOs are to become certification bodies (Ministry of Health, Labour and Welfare, 2003b) as of 2003. Neither the total economic size for Type 2 nonprofit business, nor the market share of NPOs in the entire Type 2 market is known.

Type 3 corresponds to so-called niche market, including for example environment

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⁸ CODEX is established by FAO (Food Agriculture Organization) and WHO (World Health Organization). The CODEX guidelines are said to be heavily affected by NPO-made guidelines formulated by IFOAM, which is an umbrella organization of international NPOs interested in organic farming (Kaneko, 2002).

⁹ We calculated it provisionally based on the average fee for certification per farmer multiplied by the number of farmers using the certification services.
related businesses, IT consultation for senior citizens, small scale investment to NPOs and so on. Although there have been some emerging cases of NPOs engaging in such services, a market for nonprofit business of this type is not yet formed in Japan. For this reason, we will not include Type 3 markets in the following discussion.

CONSUMERS’ PERSPECTIVE

The main thrust of our research is to investigate effects of “trust” on NPOs in comparison with FPOs from consumers’ perspective. To that end, we chose two particular target market segments, i.e., nursery school service and organic food certification service, and ask a respective group of consumers (or service users) as to why they choose the service provided by NPO or FPO, among other things.

The selection of the two target service areas is made in accordance with several considerations. The basic one is that the target market segment should be one where nonprofit business is prevalent and NPOs have a relatively large market share in competition with FPOs in the same market segment. Obviously, Type 1 market and in particular a market in the “welfare” area has to be represented. We chose nursery school service market as our first target area. Concerning care service for the elderly, we research as future reference because the degree of public intervention is different between nursery school service and care service for the elderly. More specifically, care service for the elderly market is under severe control by law on the service menu and prices of services. In addition to nursery school, we chose a certification service for organic foods as our second target area for comparison purposes.

The two target service areas have a common point in that both are subject to a relatively high degree of information asymmetry. There are, on the other hand, some differences. For instance, certification of organic foods requires more technical specialization and the

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10 In recent years, there has been a movement in the US and other countries, often referred to as social entrepreneurship or social venture offering services of Type 3 in the form of NPOs and/or FPOs.
tasks involved are easier to be standardized compared to tasks for running nursery schools. These differences of service characteristics correspond to those discussed in Schlesinger et al. (1987) comparing NPOs and FPOs in health-related services such as nursing homes, hospitals, laboratory services and health insurance plans.

We purposefully chose the two service areas with different characteristics because by comparing the results, we could differentiate effects caused by service characteristics and those caused by the fundamental (or institutional) characteristics of NPO or FPO. For instance, if the same pattern of difference is observed between NPOs and FPOs in both of the two market segments, then it is likely that the pattern of difference is due to the fundamental difference between NPOs and FPOs. If the difference between the two market segments is more marked than the difference between NPOs and FPOs, then it may indicate that consumers’ feeling about “trust” depends more on the service characteristics than on whether the service is provided by NPO or FPO.

Furthermore by investigating care service for the elderly in Type 1 market, we could find out how public intervention affects “trust,” especially toward perceptions of consumers who receive services from FPOs. Schlesinger et al. (1987) says the greatest threat to quality in FPOs comes from service providers interested in short-term financial gains. In such a case, the paper suggests regulations could be most effective in preventing a risk of exploitation.

With respect to each of these services, we conducted a questionnaire survey targeted to a respective group of consumers. It is to be noted that the situation is a little complex for the organic food certification service because there are two kinds of services and consumers in the particular service area. The consumers that we deal with in our survey are farmers who buy a certification service from a certification body. At the same time, the farmers themselves are service providers selling organic produce to the “final consumers.” In our investigation, we expect a double role for farmers; one role as a purchaser of certification service and another as a “specialist” who are knowledgeable about both (i) technical and legislative mechanisms of the certification and accreditation system and (ii) needs and behavior of the final consumers in the organic food market. It is known (Foundation of Promoting and Encouraging Farming Production Industry,
2002; Kitazaki, 2001; Ministry of Agriculture, Forestry and Fisheries, 2002) that many, if not most, of the final consumers of organic foods do not have sufficient knowledge or awareness of the certification and accreditation mechanism and the purposes thereof.

For nursery school service, we picked 7 NPO run and 3 FPO run nursery schools accredited by the Tokyo Metropolitan Government.\(^\text{11}\) We sent out 240 questionnaires in the period of October of 2004 and February of 2005, to parents who use NPO or FPO run nursery schools. Valid responses were 112.

For organic food certification service, we randomly selected organic farmers who had their produce certificated by NPOs, FPOs and other certification organizations such as local governments. We sent out, in total, 355 questionnaires to the target farmers in the period between September and October of 2004. Valid responses were 210. We interviewed some of the consumers and the service providers including three NPOs and one FPO in the organic food certification service, and 7 NPO and 115 FPO run nursery schools. We also interviewed various related public offices.

As for care service for the elderly, the referential investigation, we picked 14 NPO and 11 FPO nursing care service providers located in Fujisawa-shi and Chigasaki-shi, Kanagawa.\(^\text{12}\) We sent out 866 questionnaires in the period between October and November of 2005, to service users including their families who use NPO or FPO nursing care service providers. Valid responses were 396. Besides, the same as the above two services, we interviewed some service users, 5 NPOs and 4 FPOs providing nursing care services, and related public offices.

In the following, we will review some of the more relevant results in the existing

\(^{11}\) As of December of 2004, there are 173 nursery schools accredited by the Tokyo Metropolitan Government, of which, 8 are by NPOs and 135 are by FPOs (Bureau of Social Welfare and Public Health of the Tokyo Metropolitan Government, 2004). We should note that considering the fact that about 70% of nursery schools accredited are FPOs, FPO run nursery schools are under-represented in our survey. This bias was caused by the fact that most of the (for profit) companies running nursery schools are sensitive about customer satisfaction and reluctant to corporate with our survey. We need to remind ourselves of the under-representation when we interpret the results.

\(^{12}\) We thought that we need to limit a target area for getting useful data because the national insurance system is carried out nationally. Therefore, considering various factors affecting demand for care service for the elderly such as family structure, the rate of working woman and the elderly, we selected these two cities in the Tokyo metropolitan area. We have to note the results of our research are not necessarily applicable to other cities.
literature. Clearly, the basic framework of our research is the NPO theory which suggests a significance of NPO as a provider of services, and a possible institutional advantage NPO might have concerning trustworthiness, as outlined in INTRODUCTION of this paper. There are many existing works comparing NPOs and FPOs (and sometimes governments), but the vast majority of them deals with a comparison of NPOs and FPOs with respect to quality of service (e.g., Ferris and Graddy, 1999; Fletcher et. al., 1994; Grabowski and Hirth, 2003; Kushman and Nuckton, 1977; Rosenau and Linder, 2003) and with respect to costs (e.g., Arling et. al.,1987; Caswell and Cleverly, 1983; Davis, 1993; Koetting, 1980; Schlenker and Shaughnessy, 1984). Some compares NPOs and FPOs in terms of service providers’ educational efforts (Bradley and Walker, 1998; Schmid and Nirel, 2004).

It seems that the literature is limited which deals with the main topics of this paper, i.e., effects of “trust” on NPOs and FPOs and possible reasons for feeling trustworthiness on the part of consumers. The 1987 paper by Schlesinger et al. referring to different characteristics of services provided by NPOs and FPOs suggests that for FPO provided services where professionals have a limited role, there is a trade-off between lower cost and a greater risk of exploitation by FPO. The paper suggests, in addition, that in services where tasks involved are difficult to be standardized, consumers face a greater risk of exploitation by service providers. Also, Schlesinger et al. (2004) conducted telephone interviews to 2475 American general public, and found that, in three of the four measures with respect to “trustworthiness,” some 60% of respondents expect NPOs to be more trustworthy; in particular, people with a better understanding of institutional characteristics of NPO tend to regard NPOs as more trustworthy than FPOs.

**FINDINGS**

The main subject of our research is to examine effects of consumers’ perception of “trust” in the market where both NPOs and FPOs provide similar services. As there is a relatively high degree of information asymmetry in both of the target service areas, it is to
be assumed that (i) consumers are concerned with “trust” in choosing the service, and, that (ii) NPOs have a certain degree of advantage over FPOs in inducing a sense of “trust.” Our main purpose is to verify or give some counter evidence to these assumptions, based on the survey and interviews we have conducted. In this section, we present some of the more important findings.

In the questionnaire survey, we asked the respective consumers (service users) basically the following two questions with our intentions as explained below.

**Question 1: What factors do you think are important when you choose service (or good)?**
A consumer who is to choose a service (or good in the case of organic foods) probably thinks of many factors when making a decision. Question 1 asks a consumer about a relative importance the consumer places on the “trust” factor among many possible factors affecting the decision. (Refer to Fig. 5 and Fig. 6 in the following. Answer alternatives are as indicated in the figures.)

**Question 2: What are the reasons for which you feel the service you buy is trustworthy?**
Assuming “trust” is perceived as important, there are many possible reasons for which a consumer feels trustworthiness toward the service he or she is to choose. Question 2 asks the reasons. (Refer to Fig. 7 - Fig. 9 in the following. Answer alternatives are as indicated in the figures.)

To separate the effects of differences between NPOs and FPOs and difference of service characteristics, we will be asking ourselves the following two questions for both Questions 1 and 2. Is there a difference between consumers who receive service by NPO and consumers receiving service by FPO? Is there any difference depending on services?
Fig. 5. What factors do you think are important when you choose service (or good)?:

nursery school service: NPOs vs FPOs

Note. (1)Sample size of NPOs=56. (2)Sample size of FPOs=53.

- NPOs -

- FPOs -

Fig. 6. What factors do you think are important when you choose service (or good)?:

organic food certification service: NPOs vs FPOs

Note. (1)Sample size of NPOs=64. (2)Sample size of FPOs=37.

Fig. 5 shows the answers to Question 1 by parents using nursery schools. Trustworthiness turns out to be the most important factor, exceeding accessibility, fee, and atmosphere of nursery school, for both NPO run and FPO run nursery schools.

Fig. 6 required some explanations. Since we decided to ask Question 1 to organic farmers instead of the final consumers buying organic foods, as was explained in CONSUMERS’ PERSPECTIVE section in this paper, we selected answer alternatives with expressions relevant to farmers. For example, since existing results based on field work (in human service areas) (e.g. Bradley and Walker, 1998; Miyagaki, 2000; Tonkiss and Passey, 1999) have demonstrated that constructing good relationships between service providers and consumers is most critical in establishing trustworthiness, we placed, as answer alternatives, “building relationships between farmers and consumers,”
and “promoting understanding and interest of consumers for organic foods.” Fig. 6 indicates that the “trustworthiness” so represented is the most important factor (49% combining the two corresponding items).

Existing survey results (Bureau of Citizens and Cultural Affairs of the Tokyo Metropolitan Government, 2000; Foundation of Promoting and Encouraging Farming Production Industry, 2002) indicate that while the consumers buying organic foods on a regular basis consider “trustworthiness” to be the most important factor, non-buyers say that they do not buy organic foods because they do not have sufficient confidence in the safety of what is presented as “organic.” These results are consistent with those we obtained.

To sum, we found that consumers considered trustworthiness to be of considerable importance in choosing services, in both nursery school and organic food services, and regardless of whether the service is given by either NPO or FPO (observe that Fig. 5 and Fig. 6 exhibit a very similar pattern). This could be explained by saying that both services are subject to considerable information asymmetry. We suggest that there could be another factor, i.e., “irreversibility” of service. Here we say that a service is irreversible when the service has the following characteristics; i.e., once damage is done by bad service, its adverse effect is severe and will remain for a long time. As an indication of the irreversibility, note that in both services, and regardless of whether the service is given by NPO or FPO, consumers do not consider “official penalties for violators of regulations,” i.e., ex post facto sanction, to be very important.  

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That consumers feel “official penalties” relatively unimportant was confirmed in the free answer columns of our questionnaires.
Fig. 7. What are the reasons for which you feel the service you buy is trustworthy?:

nursery school service: NPOs vs FPOs

Note. (1) Sample size of NPOs=53. (2) Sample size of FPOs=52.

Turning now to Question 2, it turns out that there are some very clear and contrasting differences between NPOs and FPOs, and between services. Looking at Fig. 7 and Fig. 8, for both service areas, we found that while “information disclosure” is an important reason for trust for NPO services, it is not so important for FPO services. This is as suggested in some of the existing literature. For example, in comparing NPO and FPO nursing homes, Bradley and Walker (1998) suggest that activities to supply information to parents, families and communities concerning patients’ rights to participate in medical decision making are carried out more often by NPOs as compared with FPOs. They suggest that these activities are useful in enhancing consumers’ trust.

In the interviews we conducted, we repeatedly confirmed that consumers feel NPO services to be trustworthy because of information sharing between service providers and consumers. For example, a staff member of a NPO nursery school said, “In our nursery school, we have been adapting many requests by parents concerning service menu,
management of school and even hiring of new staff. We feel that we can earn trust from parents only when we assure information accessibility by all concerned.” The director of another NPO nursery school concurred, saying, “The contents of child care are decided by parents and the staff together. We feel that we have been strongly supported and trusted by parents because of the parents’ participating in decision making processes.” In contrast, only 14% of the 115 FPO run nursery schools we interviewed said that they let parents participate in the decision making process. A similar tendency is observed in the organic food area. The director of a NPO certification body said, “Unlike many FPO certification bodies, we try to be close to local communities. This is important because by knowing the community, farmers feel restrained to commit dishonesty in the accreditation process. The more information we share with the farmers, the more thoroughly we can check their produce. As a result, farmers would trust us more.”

We note that while “reputation among parents” is considered to be important for trust in the case of NPO run nursery schools, it is perceived as not so important in the case the nursery school is run by FPO. It is interesting to see that for organic food certification service, “reputation among farmers” is not considered to be so important regardless of whether the service is provided by NPO or FPO. When the service is provided by FPO, “accreditation by governments” for nursery schools, and “past business records” for organic food certification are considered important for trust. These factors are not considered important in the case that services are provided by NPOs.

Indeed, making a comparison between the results of the research on nursery school service and those of the research on care service for the elderly for reference, we found that public intervention is more effective in getting “trust” for FPOs rather than NPOs. According to the interviews, unlike parents who use FPO nursery schools, many parents who use NPO nursery schools showed their concern about low quality and exploitation by FPOs. For example, a parent who uses NPO nursery school said, “When I visited FPO nursery schools, I felt that staffs always looked into owners’ faces and they didn’t take care of children.” However, in the case of care service for the elderly, as a result of the interviews, neither service users who use NPO nursing care service providers nor those who use FPO nursing care service providers were worry about low quality and
exploitation by FPOs because of existence of the severe law. From the above, public intervention could soften users’ concern about low quality and exploitation; therefore, it could be useful, especially for service users who receive services from FPOs. On the organic food certification service, answering to our interview, a director of a FPO certification body said, “We carry out certification service by using our previous business experience to advantage.”

These differences between NPOs and FPOs merit some further analysis, but they may be explained, at least partially, by the fact that organic certification requires more expertise and is easier to be standardized than nursery school service, as suggested in Schlesinger et al. (1987).

The answers to Question 2 have an interesting implication as to the importance of the “non-distribution constraint” for NPO. Observe that Fig. 7 clearly indicates (c.f., “type of organization”) that consumers do not regard the institutional difference between NPO and FPO as a reason for feeling trust. An article we found in a certain newsletter circulated to users of NPO nursery schools indicates a typical opinion by a consumer. It refers to some consumers as saying, “We don’t understand exactly what “NPO” is all about. We feel that the current nursery school is trustworthy because it is open to us.”

On the other hand, in the area of organic foods, Fig. 8 shows that farmers buying service from NPOs regard the institutional difference to be important as a source of trust about twice as much as farmers buying service from FPO do so. This difference may be due to the fact that compared to nursery school users, organic farmers tend to be better informed as to what NPO is, and as to the possible implications of NPO’s institutional characteristics. It is to be noted, however, that comparing Fig. 8 and Fig. 9, we find that, the institutional ‘trust factor’ works to the advantage of NPO much less than it works for local governments.
CONCLUSIONS

Consumers of nursery school and organic food services place considerable importance to trustworthiness when choosing the service, regardless of whether the service is provided by NPO or FPO. This is so because, in addition to that information asymmetry is present, these services are highly “irreversible.”

What are then possible advantages of NPO in earning trust by consumers in the supposed mixed market?

At least in the two service areas we surveyed, institutional characteristics such as the “non-distribution constraint” were not necessarily the decisive factor for NPO to be perceived as trustworthy.

In view of the current Japanese situations, governments’ actions such as a drastic deregulations play an important role for expanding nonprofit business. However, (once a market is formed) consumers do not feel that governmental involvement is important for inducing trustworthiness for NPO services. In contrast, governmental involvement is perceived to be very important for FPO services, especially, services which are difficult to be standardized.

What is then critically important for NPO to gain trust? Our survey and interview results indicate that it is important for NPO (i) to have a good reputation among consumers (of nursery schools), (ii) to disclose information to consumers, and (iii) to promote information sharing process with consumers as has been indicated in the literature. (Note that to promote these factors, the “non-distribution constraint” may, at
least indirectly, work to the advantage to NPO.) While these points suggest a possible strategic advantage that NPO could explore to compete favorably with FPO, it also indicates a possible limitation since to form a close bilateral relationship with consumers, NPO would have to put forth extra time and energy. Coming up with an innovative approach to overcome this ‘dilemma’ is a key for NPO to become a successful and major player in the nonprofit business in Japan.

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