

A Study on the Corporate Governance of Long-Term Care Providers in Japan  
– Based on a Questionnaire Survey and Some Interview Research –

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## Abstract

### 1. Background of the Paper

The author started working as a hospital physical therapist 21 years ago, and since 13 years ago, at a company whose core business was at-home nursing care specializing on rehabilitation.

In Japan, the long-term care insurance policy started in 2000. It is said that the percentage of senior citizens in the population will rise to 26.0% by the year 2015, and that by 2025 when the baby-boomer generation will reach 75, the percentage will increase to 30%. Under such circumstances, the role of Social Enterprises, especially those that focus on nursing care providers, has come to attention in the recent years. Such companies have been on the increase since the launch of the long-term care insurance policy.

However, the funding for the Japanese social security system is limited, and as the result of the amendment of long-term care policy that takes place every three years, individuals with mild disabilities are no longer eligible for financial aid. Due to the budget cut, nursing care providers are being replaced by "Daily Life Comprehensive Support Projects," which are efforts handled by the municipal governments. Thus, long-term care businesses have come to face severe challenges. Long-term care providers will definitely be required to provide sustainable operations, under which situation corporate governance (governance) will play an important role.

This paper will define companies that provide long-term care business according to the Long-Term Care Insurance Act – as "Long-term Care Providers." This is because a large part of the sales of long-term care business in many of the providers consist of services to which long-term care insurance is applied.

One of the most prominent characteristics of Long-term Care Providers – which are considered to be a kind of Social Enterprise – is that the users of the service, who are socially vulnerable, are their most important stakeholders. That is to say, the provision or the failure to provide the services can directly impact the lives of the users.

The Long-term Care Providers are 1. expected to deal appropriately with the increasing needs of the aging of society, and 2. under the limited social security budget, the major part of the services consist of those that are restricted by the Long-Term Care Act, and the companies need to continue improving the management efficiency. It is not an overstatement to say that the Long-term Care Providers are now facing a "sustainability crisis." Thus, establishing the sustainability of Long-term Care Providers, and the governance that will guarantee the sustainability becomes the most pressing and important issue.

Problems that governance related issues cause in the Long-term Care Providers can be divided into two categories. The first is the termination of the designated provider status due to misconducts such as improper billing, as in the 2007 COMSN incident. The second is the abuse of the users by the institution employees, which has been publicized frequently by the media recently.

The COMSN incident was a symbolic case when considering the sustainability of Long-term Care Providers. COMSN, was one of the largest companies in the industry at the time, and was punished by severe administrative action for misconduct such as improper billing of insurance fee. As the result, the company was forced to transfer its business to another company. At the background of this incident is the lack of corporate governance, which would have stopped the management's reckless conduct and checked the illegal actions.

Studies have pointed out legal issues as the cause of the COMSN incident, especially those such as the decrease of compensation by long-term care insurance, insufficient checking function of the government, and shortness of staff due to the decrease of compensation. However, very little study has treated this case from the governance perspective, which means that the very core of the incident remains yet to be clarified.

On the other hand, abuse of the users by facility staffs have come to the attention of mass media. Such incidents are being uncovered frequently not only in commercial enterprises that run private nursing homes, but in non-profit companies such as social welfare corporations that run intensive care nursing homes. Social welfare corporations have been receiving numerous preferential treatments by the government, and are now being questioned whether they are managed in the worthy fashion.

Thus, as previously stated, governance is indeed important for the sustainability of Long-term Care Providers. One of the characteristics of these companies is that both non-profit and commercial companies can provide exactly the same service when it comes to in-home services. However, non-profit and commercial companies differ significantly when it comes to the company system and the Companies Act and Social Welfare Act that surround it.

While both non-profit and the commercial companies are able to provide identical services, we can assume that differences in the governance policies led to emergence of different situations and issues. Contrarily, we can also assume that the two kinds of companies also share similar situations

and issues. For example, Long-term Care Providers are sometimes classified as Social Enterprises. One of the characteristics of Social Enterprises is that socially vulnerable individuals are included among its stakeholders. The non-profit and commercial Long-term Care Providers may share similarities that originate from the fact that they implement special management policies that takes this characteristic into account. It is also necessary to consider how rigorously such policies are implemented. Only a small number of studies include all of the above-mentioned perspectives.

In this study, the author conducted questionnaires and interviews with Long-term Care Providers on their “decision making,” “implementation,” and “monitoring” in implementing corporate governance, and analyzed the results, in order to grasp the current situation and issues. The study then proposed an analytical framework, clarified the issues pertaining to corporate governance, and pursued what the findings may imply for securing the sustainability of Long-term Care Providers.

## 2. The Methods and Structure the Study

The questionnaires were conducted under instruction of Professor K.Matsumura (Tokyo University of Social Welfare) et.al with the institute of Business Administrative Behavior the head office, from March to May of 2014. The author was in charge of creating the questions, selection of the recipients of the questionnaire, and analysis of the results.

### (1) Basic Design of the Questionnaire

The objective of conducting survey questionnaires in this study was to grasp the system and attempts of corporate governance among the Long-term Care Providers in Japan, and the current situations and issues regarding “decision-making,” “implementation,” and “monitoring” functions in implementing this governance. In addition, the survey aimed to come up with an analytical framework, and to explore the implications for securing sustainability of Long-term Care Providers. Considering the objective of the questionnaire, the author sent the questionnaire to 552 companies in Japanese prefectures that own businesses covered by the long-term care insurance. The 552 companies consisted of one or two large, medium, and small companies representing commercial and non-profit companies respectively for each prefecture. The companies were selected randomly using the “Long-term Care Provider Search System” provided by the Ministry of Health, Labor and Welfare.

Regarding business size, businesses with more than 8 offices (or more than 301 employees) were classified as “large,” those with 4 to 7 offices (or 51 to 300 employees) “medium,” and those with 1 to 3 offices (or under 50 employees), “small.” Because most of the offices for in-home long-term care support businesses were quite small, they were not counted as offices. In cases where a number of different offices were housed in the same building, 2 offices were counted as 1.5 to 2 offices, depending on their scale. Out of the 552 questionnaires sent, 2 were returned due to unknown address and 1 was returned untouched because the office was closed. 82 questionnaires were returned, adding up to a collection rate of 14.8%.

Items surveyed in the questionnaire included basic information such as: the founding body of the company, year of foundation, number of establishments , number of employees, the ratio of long-term care sales to gross sales, number of board members. In addition, the questionnaire was also centered around items such as acknowledgement of corporate governance, statement of management philosophy, priority of the stakeholders, performance evaluation, information disclosure, establishment of the system for governance, establishment of mission statement for company ethics, subjects frequently discussed at the board meetings, small to medium scale governance measures, and systematic issues regarding governance.

### (2) Characteristics of the Questionnaire

Questionnaires such as this that focuses on governance in Long-term Care Providers that also cover commercial companies have been rare in the past, except for the following three examples.

The first attempt was the “Questionnaire on Management Quality and Compliance in the Long-term Care Service Sector” conducted by the Elderly Service Providers Association. This survey was conducted in 2008 among social welfare corporations, and focused on compliance.

The second was the “Survey Research on the Governance of Healthcare Institutions” conducted by Ogata et.al. However, this survey was conducted only in the Kyushu area, among healthcare institutions.

The third survey was performed by the Mizuho Information & Research Institute among social welfare corporations, and was titled *Survey Report on the Governance Enforcement Measures of Social Welfare Corporations Running Intensive Care Nursing Homes*. In the present situation where social welfare corporations are facing the pressure to transfer from institution management to corporate management, this study performed questionnaire and case study based analysis necessary for running the PDCA cycle, which is crucial for developing information disclosure and management

philosophy into management vision and management strategy. However, it did not cover the commercial companies.

The above summary shows that no other questionnaire have been conducted with both the non-profit and commercial Long-term Care Providers as subjects, which focus on their corporate governance and cover questions on code of conduct/ethics statement and performance evaluation, thus showcasing the originality of this survey.

The structure of this paper is as follows. The first chapter will explain the concept of “Long-term Care Providers” mainly through reference to pre-existing literature. The chapter will also discuss the terminology “Social Enterprise” frequently mentioned in recent literatures, focusing on the meaning of the word and what it covers. The second chapter will discuss the current situation surrounding Long-term Care Providers, focusing on the social background and history, long-term care insurance policies, and categorization of long-term care businesses. In the third chapter, the paper will analyze the relevance of corporate ethics and management philosophy of Long-term Care Providers to incidents of misconducts such as termination of designated care provider status and abuse by institution staffs. The chapter will also discuss how permeation of corporate philosophy and mission statement for corporate ethics is crucial in avoiding such undesirable incidents, and the current situations regarding performance evaluation and information disclosure. Chapter four will explain the structure and function of decision making bodies in Long-term Care Providers by examining the structure and function of the director and board members, auditor-secretaries and auditor-officers, and the administrative board and the board of directors. In chapter 5, the paper will take up issues pertaining to the governance of Long-term Care Providers including the management’s awareness towards governance, the topics frequently discussed among administrative board/board of directors and the actions they take in order to solve various issues. Chapter 6 attempts to gain further insight into the questionnaire results by analyzing the results of interviews conducted among companies with successful corporate governance. Chapter 7 considers the implications for sustainable management of Japanese Long-term Care Providers, based on the current situation of their corporate governance, and drawing upon the results of the previous chapters.

### 3. The Relevance Between the Analysis Result and Corporate Governance

Based on the results of the questionnaire, the paper conducted a comparative analysis regarding corporate governance in non-profit and commercial companies.

Regarding the stakeholders, the common trend in both companies was that they both valued the users, employees, and the community. This most likely reflects the characteristics of the stakeholders valued by Long-term Care Providers.

A noteworthy characteristic of non-profit companies is that only few companies understood the concept of “governance.” In addition, although these entities valued the users, employees, and the community, their sense of necessity regarding the education of these stakeholders, especially towards the “employees” who has influence over the users and the community was low. The fact that although these companies have clearly stated management philosophy and company ethics, they did not educate the staff regarding the mission statement of company ethics, or conduct performance evaluation based on the mission statement.

In contrast, commercial companies tended to be unenthusiastic when it comes to information disclosure, and their performance evaluation tended to be based heavily on profit and sales. In addition, only a small number of companies had auditing officers. These problems can potentially lead to problems caused by the management itself, and eventually to issues such as fraudulent billing or violation of designation standards.

The above comparisons revealed the shared issue among both non-profit and commercial companies – what kind of standards companies should have as the basis of successful performance evaluation. In the current situation where many of the non-profit and commercial companies among Long-term Care Providers are small to medium sized, it is likely that many companies suffer from the conflict caused by the fact that the core functions of the governance system are also assumed by the highest decision making body. Given this situation, there are few studies especially in the case of Long-term Rare Related Companies, which discuss performance evaluation that realize company missions. There is necessity for studies addressing this topic.

Taking the above into consideration, the common problems between non-profit and commercial companies can be listed as follows: 1. the conflict of performing both as the highest decision making body and the core of the governance system, 2. inadequate permeation of corporate ethics, and 3. tendency to base performance evaluation on sales and profit. In non-profit companies, poor awareness of corporate governance was the problem, and for commercial companies, low awareness towards information disclosure was the problem. It is a characteristic of non-profit companies that the ownership of the company is unclear. This causes the possibility for ineffective use of the resource,

the company, which is the reason that the corporate governance system in non-profit companies is unclear compared to commercial companies. The lack of awareness towards governance that was seen in the questionnaire results supports this point. On the other hand, whereas the objective of commercial companies is the growth of the company's profit and value, the companies are at the same time providers of long-term care. Such particularity of the business is most likely the reason that commercial companies are hesitant to actively disclose information. The lack of policies regulating disclosure of information in commercial companies may be another relevant background element.

#### 4. The Framework of Corporate Governance Drawn from the Questionnaire Results, and the Future Challenges

Following the above development, the paper then considered what measures should be taken in order to remedy the corporate governance problems present in the Long-term Care Providers.

In the previous sections, the paper analyzed the problems in non-profit and commercial companies. It is a given that companies provide long-term care as a social mission, and are required to contribute to solve the problems of the aging society.

Applying the corporate governance theory by M. Hirata who proposed a theory on the self governance of the management with "companies trusted by the society" as the key concept, the author analyzed the results of the questionnaire, and formulated a framework adequate for Long-term Care Providers.

1. Distinction between the decision making body and the executive body is crucial. 2. The administrative board and board of directors are the decision making bodies. 3. Although the facility users are the important stakeholders of Long-term Care Providers, it is difficult to let them participate in the decision making body. Thus, a separate body is needed for this purpose. 4. In the current situation, information disclosure is far from sufficient. There is need for active promotion of information disclosure, and company divisions that can take on this task. 5. As companies establish their mission statement for company ethics, measures for permeating these statements become important. There is also need to monitor whether the contents are implemented. 6. Users are the most important stakeholders, and improving their level of satisfaction is crucial. Thus, there is need to check whether this is realized. 7. Regarding the above points 4 through 6, the management itself needs to take on responsibility and implement the necessary measures. 8. Because the majority of Long-term Care Providers are of small to medium size, it is difficult to form strictly run organizations such as the one realized in listed companies like the Nichii Gakkan. There is need to form appropriate systems according to the size of each entity.

On the other hand, the author saw the following three points as areas for improvement, based on the results of this questionnaire: a. although on the surface non-profit companies appeared to excel in comparison to commercial companies, taking into account the misconducts of the social welfare corporations, one needs to be careful in making this judgment, b. because the author did not include in the survey, questions on how well corporate governance functions in the entity, the author had to collect fragmented information from the comments section of the questionnaire, and lastly c. although the author pointed out the importance of the perspectives of user/employee perspective in performance evaluation and criticized the tendency to value sales and profit, such tendency may be reflecting the reality where business is unstable and is going back and forth between positive and negative figures, and thus in considering the performance evaluation of the companies, one should take into account the actual financial situation of each entity. The author realized that in order to address the three agendas, the author needs to further pursue cases of successfully functioning Long-term Care Providers, and to perform survey interviews that supplement the analysis of questionnaire results, and perform thorough analysis of the interview results.

#### 5. Case Studies

As stated above, three agendas were derived as the result of the questionnaire. In order to address the agendas a, b, and c, the author further pursued examples of successful corporate governance, and conducted interviews to supplement the analysis and the shortcomings of the questionnaire.

Regarding agenda a., "although on the surface non-profit companies appear to excel in comparison to commercial companies, taking into account the misconducts of the social welfare corporations, one needs to be careful in passing this judgment," the author was not able to gather enough supplemental material through this interview alone. However, it became clear that there were examples among commercial companies where the company valued its philosophy, and communicated it throughout the organization.

As for agenda b., "because the author did not include questions in the survey on how well corporate governance functions in the entity, the author had to collect fragmented information from the comments section of the questionnaire," it became clear through the interview that in companies

where corporate governance was functioning effectively, the governing body was neither the supervisory board, board of auditors, administrative board, nor the board of directors.

The interview also revealed that in some of the companies, the management meeting held twice a month under the strong leadership of the board director made all the company decisions, and that in these companies, the management meeting functioned in essence as the decision making, executive, and the monitoring body.

The interview confirmed regarding the members of the management meeting that the director him/herself also participated in the monitoring body, and in all three of these small to medium sized companies, the director him/herself participated in the body designated for corporate governance. Although in these cases, the management meeting itself did the decision making and the monitoring, executives such as the executive director or the group's general manager, or the clerical supervisor monitored the decisions made by the management meeting. The management meeting sometimes also monitors the decisions of the CEO or the senior managing director. Thus, the author came to conclude that corporate governance was functioning effectively due to such system. However, this interview alone cannot clarify the crucial elements of effective governance, and further research is needed.

As for the agenda c., "although the paper pointed out the importance of the perspectives of user/employee perspective as standards of performance evaluation, and criticized the tendency to value sales and profit, such tendency may be reflecting the reality where business is unstable and is going back and forth between positive and negative figures, and thus in considering the performance evaluation of the companies, one would need take into account the actual financial situation of each entity," the three companies interviewed all ran stable business. Although one of the three companies had the tendency to value sales and profit as the standards for performance evaluation, the paper concluded that because the company's finance was stable, there was no need for special consideration.

However, we often see the news that compensation per unit has declined after the amendment of the long-term care insurance policy act in 2015, and that the businesses of the companies are facing challenges. Based on such background, the author came to believe that in the future, it will become even more important to take the actual financial situation into consideration.

## 6. Implications on Sustainable Management Drawn from the Present Situation of Corporate Governance in Japanese Long-Term Care Providers

The paper derived from the results of questionnaires and surveys that it is important for the director him/herself to consider the customer value of the company and for them to participate in the organization designated for corporate governance, and that doing so would lead to improvement of the company performance, and organization free of misconducts.

Drucker has stated regarding his self-assessment tool that it is "an argument on how to construct the future and the organization, and that the tool will reveal the mission and the objective to be reached through the following five questions: 1. What is our mission? 2. Who is our customer? 3. What does our customer value? 4. What are our results? And 5. What is our plan? Perhaps the sustainability of a company may be secured when the management him/herself asks oneself these five questions and participate in the organization designated to corporate governance, and by realizing management with a sense of mission.