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Business Model of Community-based Corporation in Japan

A case study on the management system of the Green Fund Group

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Introduction

Nonprofit organizations (NPOs)[1] can become practitioners in each community to create new industries in Japan. The Hokkaido Green Fund is an NPO[2] that realizes it through wind power generation projects. The new management system of the Hokkaido Green Fund (HGF) in Japan is a model that overcomes the economic problems of NPOs. It is a form of management in which an NPO establishes two companies and cooperates with them, thereby combining the public benefit service and the profit-making enterprise. HGF has a business model that may cause social change with the realization of a renewable energy society. The Community Wind Power Co., Ltd. is responsible for its development, maintenance of wind power generation business. The Japan Green Fund Co., Ltd. is responsible for fundraising.

The management system of the Green Fund Group has three characteristics. First, HGF's financial management has become sophisticated, and its philosophy has penetrated into the two companies. Second, the projects are carried out in accordance with locally made decisions, and the profits are returned locally. Third, with this management system, they can collaborate with various partners in different sectors who share their ideas.

The purpose of this research is to look at Green Fund Group to identify ways to overcome the problems of NPO's management form through these case studies.

The significance of this research is that an NPO was able to adopt a European model, but adapt it to the Japanese situation and local conditions. HGF was inspired by community wind power projects in German and Denmark. Corporations in Japan which have a hybrid management model differ from those in other countries, and the social institutional background of Japan's NPOs is unique: a short history compared to European NPOs, and operating under less developed regulations. Even so, this case study provides a useful approach, in trying to implement European best practices into the local communities but with adaptations for local conditions.

In this research, we used two methods. First, after organizing the themes of the NPOs and corporations into different corporate forms, we conducted semi-structured interviews with stakeholders in the Green Fund Group, which is an advanced case of integrating both the NPO and corporation format into one management form. Second, we analyzed the structure of the NPO and the corporate value of two corporations. By bringing together the results of the aforementioned survey, we derived the features and possibilities of business entities that utilize a hybrid management form of an NPO and a corporation, that we named a community-based corporation.

[1] Although there are various definitions of nonprofit organizations (NPOs), NPO in this paper refers to the organization prescribed by the NPO Law in Japan, and citizen volunteer activities. Cooperative associations included in the broader NPO concept, are excluded.

[2] NPO Hokkaido Green Fund is an NPO with 1042 members (2015) located in Sapporo-city, Hokkaido Prefecture in Japan. It established the Community Wind Power Co., Ltd. and the Japan Green Fund Co., Ltd. in the process of implementing the citizen-led wind power generation project. It contributes renewable energy business in partnership with both companies, to support efforts of citizen-led power generation projects in various areas. Additionally, it conducts public awareness raising activities on energy conservation and environmental education.

In Chapter 1, we describe challenges surrounding the management form of NPOs. In Chapter 2, we conduct a case study of the management form of the Green Fund Group. In Chapter 3, we show the new possibilities of the organization that creates the industry required for the community, focusing on the management form.

Chapter 1

Background: Hokkaido Green Fund to Overcome the Challenges of Management Forms of NPOs

NPOs are facing the challenge of management form in Japan. They are loyal to the social mission of their own businesses, which are not easy to sustain. In the Nonprofit Organisation Law (NPO Law), the philosophy of contributing to the local community is established; therefore, there are principles for disclosure of information to citizens and non-distribution of profit to constituent members of the organization. While this principle stipulates that an NPO is an organization established for a social mission, it makes it difficult to generate continuous business income even to become an organization with social influence.

1-1 *Realities of NPOs and Challenges in Legal System*

As of July 2016, there are about 54,000 NPOs in Japan. However, many of them are weak at raising funds for activities. They tend to rely mostly on government subsidies or outsourced projects from the government and are not good at getting donations. The government recommends collaboration between NPOs, administrations and companies, but NPOs are not the type of organizations to cooperate equally with local governments and companies. Therefore, many people think that NPOs are small-scale charitable organizations that seek no economic benefits. Moreover, there is no legal system to support the expansion of the scale of NPOs. The NPO Law provided opportunities for NPOs contributing to regional development to grow. However, since the NPO Law has the principle of non-profit distribution, it cannot accumulate capital or retain internal reserves. As a result, it is difficult for NPOs to expand their activity areas and business scale by obtaining loans and revenues. The management form of an NPO carries with it the risk that the NPO could be absorbed into another organization and prevents it from entering into a business alliance or integrating with non-NPO corporations. The category stipulated by the NPO Law provides provision for only the establishment and business contents. It does not include support for ensuring promotion structure and financial resources, support of national and local governments and fostering the environment promoting economic activities. The state of such NPOs as well as the legal system makes it difficult for NPOs to turn themselves into a good organization and prevents entrepreneurs belonging to NPOs from trying to conduct non-profit activities utilising commercial projects.

NPOs cannot support an industrial creation project in the organization form of NPOs. NPOs trying to become an organization with an influence on the society need to compensate for these practical and legal challenges by flexible reorganization of their management form. This problem can be overcome by combining the management form of a corporation with NPOs.

1-2 *Reasons for Focusing on the Hokkaido Green Fund*

The Hokkaido Green Fund (HGF) has a management form that combines NPOs and companies and has a good track record in the citizen-led power generation business. One of the companies that are allied with HGF is the Community Wind Power Co., Ltd. (CWP) which conducts wind power generation projects, and the other is the Japan Green Fund Co., Ltd. (JGF) which manages funding. They – HGF, JGF and CWP – have different business alliances with unique roles, but a united form. We named it the Green Fund Group. The Green Fund Group not only made an NPO into a sustainable business, it has overcome the challenges of the company's management form. There is a need in an area that is not satisfied by business alone. For example, issues such as widening income inequality between the rich and poor, and poverty and resource reduction cannot be solved by commercial companies or corporate Social responsibility (CSR) projects by specific companies. There is no reason or compulsion for a company to answer these social needs. This is the first problem. The second challenge is that firms do not necessarily promise contribution to the region. Regional municipalities need permanent financial resources that may help residents to live and maintain economic activity. However, business profits in the region are not necessarily returned to the area. Even if a company has stated its corporate philosophy as 'contribution to the community' and implements business and CSR projects, there may be a reduction or withdrawal of the business if the business condition deteriorates. The bigger the business scale of the company, the bigger the benefits received by the area, the greater the blow at the time of withdrawal. However, it is difficult for municipalities and residents to prepare countermeasures by predicting the company's business situation and risk of bankruptcy. For a company to contribute to a region over long term, traditional business support systems and a profit potential are necessary if companies are to fully embrace a 'business philosophy' that brings benefits to a region.

The Green Fund Group has overcome both the issue of the management form of the NPO as well as the corporation by having a 'new management form' that combines NPOs and corporations. In other words, it has a management form that realizes both, sustainability of business and contribution to the region. Therefore, in this paper, by focusing on the Green Fund Group, we clarify the characteristics of its management form, that is, how NPOs can help in industry creation and achieve a sustainable business at the same time.

Chapter 2
Case Study - New Management Form of the Green Fund Group

The process of HGF's evolvement of a new management form consisted of establishing a business model that made profits while promoting the power generation business, establishing a corporation, delegating and realizing its work and becoming its largest shareholder. As a result, while having the social mission of an NPO, HGF involved itself as a shareholder in the management of the company and established a system to sustain the business. In this chapter, we examine the characteristics of this management form of Green Fund Group.

2-1 *Projects by Entity with New Management Form – 3 Features*

The Green Fund Group consists of an NPO and two corporations. CWP is responsible for expertise in development, maintenance and management of wind power generation business. JGF is responsible for financing and investment. These three organizations divide their

respective roles and promote the wind power generation business. At the same time, they support NPOs and others that aim to launch citizen-led power generation projects in each region and support the establishment of a regional business purpose company which is a special purpose company (SPC). The two corporations have different management forms from the NPO (HGF) but share a social mission and work together like one management entity to implement a power generation project that matches the actual circumstances of the region.

As mentioned above, the power generation project which is established in the 'new management form' in which the three organizations combined, succeeded in the following three ways: First, region-led power generation projects in which local residents participate are being promoted to regional entities. Residents in the area are mainly involved in community-driven power generation projects in three ways: (1) as a practitioner who produces energy in daily life; (2) as a business operator and investor; (3) as a regional energy vision planner. In all the three cases, the mission of HGF is shared. As a result, a mechanism for returning business profits to the area is created by the residents who have either joined the power generation business or are involved in policy making. Second, a different business model that is compatible with environmental conservation as well as business revenue is designed by major companies in the region. In regions where interest in the power generation business that brings local benefits has risen, regional enterprises that help in development of new technologies, such as the Wenty Japan Co., Ltd. in Akita City, to be described later, are being set up. Thirdly, as a result of combining and establishing an organization that is necessary to deal with the legal system and realistic challenges faced at the time of project promotion, the optimal corporate firm, the Green Fund Group, can collaborate with different organizations. Interested entities from diverse regions can participate in such a network as Green Fund Group and learn the development process from others with experience. These three features – (1) implementation of power generation project in integration with local residents, (2) development of business model suitable for the region, (3) Project implementation while cooperating across sectors – were not present previously.

Then, how does each organization of the Green Fund Group share its roles and collaborate for the purpose of achieving its goals?

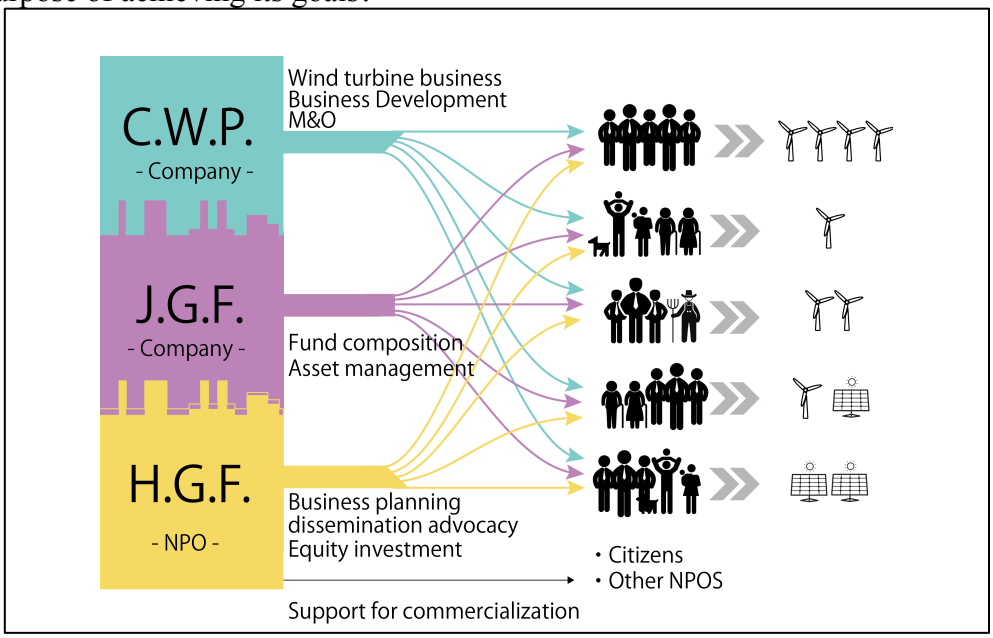


Figure 1 : Role and Promotion System of Green Fund Group (source: HGF Activity Report)

2-2 ***Characteristics of Organization with New Management Form***

The relationship between the three organizations of the Green Fund Group is as follows: HGF is a major shareholder in CWP and is a contributor to the Nature Energy Citizen Foundation, which is the parent organization of JGF. Toru Suzuki, who is the Director of HGF, is also the director of CWP and JGF. Due to this capital relationship, HGF has a controlling interest in both companies (Fig.2).

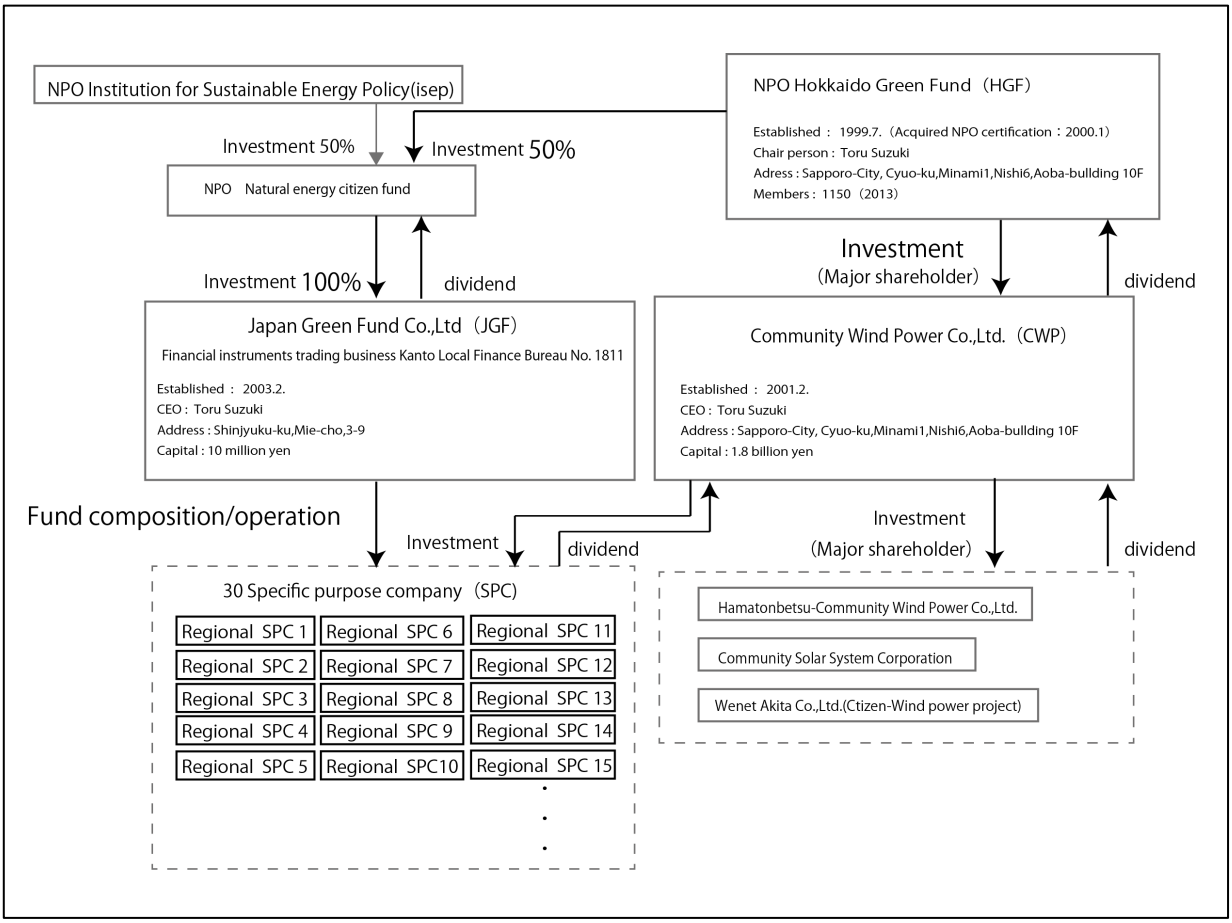


Figure 2: The Organizational System of Green Fund Group (source: HGF Activity Report)

2-2-1 *Community Wind Power Opening New Markets with Expert Technology*

[1] ***Outline of Business of Community Wind Power.*** CWP was established in 2001, and it is a corporation related to wind power generation (capital – 1.8 billion yen). It started with construction of two windmills and now owns 21 windmills (generating 29,000 kW) as of 2016. The 15th term (fiscal 2014) sales were 1.7 billion yen, operating income is 259 million yen and net income was 143 million yen (shareholders' general meeting data, 2015). Profits are on the rise and the number of employees is also increasing (about 30 people). With headquarters in Sapporo, it has branch offices in Akita and Tokyo. It holds approximately 30 business alliances, some are 100% subsidiaries and others with a 60% to 70% share (Fig. 2 above). Major shareholders are HGF and Toru Suzuki, who is a representative director as well. The main business of CWP is development and maintenance of wind power generation. It has a financial management department along with a specialized technical department and has an asset business model that supports operators in the area and makes them autonomous.

The main business consists of three divisions: the business development department (planning of new projects, commercialization survey and analysis and construction management); the technical control division (construction management, daily operation maintenance management, regular inspection and troubleshooting); and the business management division (business development cost, funds procurement, maintenance cost and fund management and power plant asset management) (Fig. 3).

Business development department collaborates with windmill manufactures and landowners in regional communities; Technical control division works with HGF; and Business management division works with JGF, banks and many sponsors of windmill projects supported by CWP.

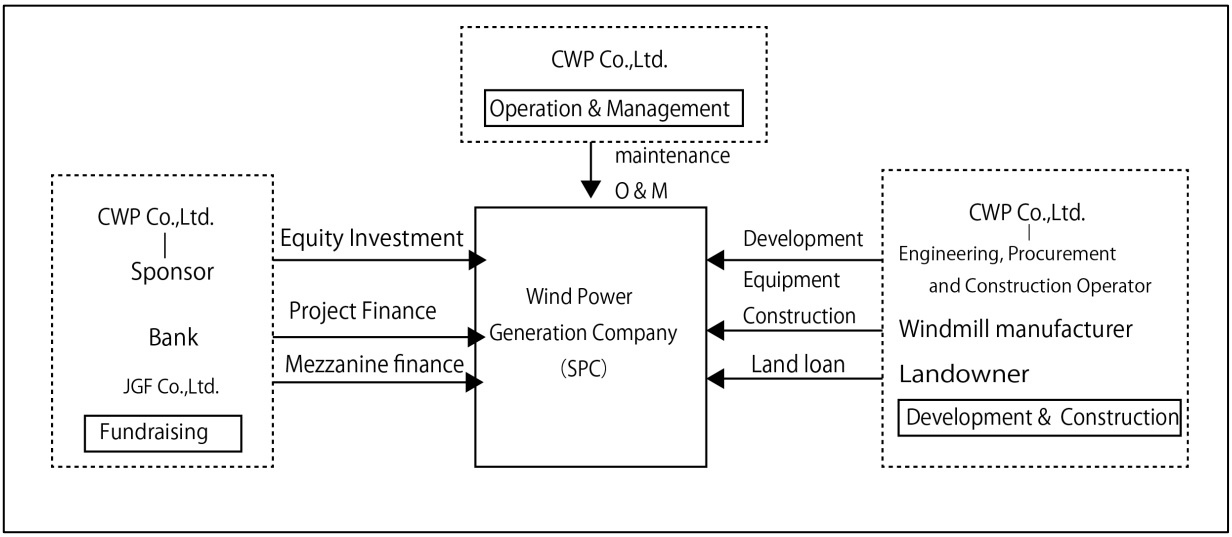


Figure 3: CWP promotion system (source: CWP internal document)

[2] ***Role of Community Wind Power – Expertise Sector of Wind Power Business.*** Community Wind Power Co., Ltd., one of the organizations that make up the Green Fund Group, is the operational unit of the wind power generation business that the group promotes, and it also controls the specialized technical department of the entire group. In each of the above three features: (1) implementation of power generation projects in integration with local residents, (2) design and development of business models conforming to the region and (3) implementation of collaborative projects across sectors – Community Wind Power plays an important role. As regards (1), it is responsible for the construction of windmills by supporting the power generation projects in the region and for developing a business model that simultaneously solves social problems and creates business opportunities (Fig. 3 above).

Supporting 'local energies' business operators, community cooperatives and primary industry groups is its core business. For (2), the engineering department of CWP is foremost in developing a wind power generation model that is compatible with local environmental conservation while reducing risk burden. For (3), CWP sets up a wind power generation company, which is an SPC. It is the business entity while starting the power generation business in the region, and in cooperation with local financial institutions and private sector organizations such as Co-ops and companies, it supports the project as a whole. Depending on the conditions of local business operators, there are cases where CWP establishes SPC and supports the establishment of regional SPC.

Power generation projects run by regional SPCs are the preferred option, but CWP will

'parent' projects if necessary. Moreover, if local conditions are not suitable, CWP becomes the regional SPC. Through this process, when the power generation business is established in the area, the mechanism that the power generation project contributes to the region can aid other regional projects. An attempt to protect the forests in Ishikari is one such example[3].

As described above, CWP is a unit of development, maintenance and management of the wind power generation business. It is a locals-led wind power generation project promoted by the Green Fund Group with regional entities. It is the responsibility of the specialized technology department to achieve it.

2-2-2 *Japan Green Fund Opening Up Social Investment Market*

[1] ***Outline of Business of Japan Green Fund.*** The Japan Green Fund (JGF) was established in February 2003 (capital – 10 million yen) to implement the composition, recruitment and profit/loss distribution of citizen investment that Hokkaido Green Fund was unable to do due to its NPO status. In January 2004, it transitioned from a limited company to corporation. The representative shareholder is the Nature Energy Citizen Foundation. The corporation was established with 50% funding each from HGF and another NPO, Institute for Sustainable Energy Policies (ISEP). The JGF acquired a Financial Instruments Business Operator license (Type II Financial Transaction Business) from the Kanto Finance Bureau No. 1811 to be involved in HGF's projects, that is, in the construction of power plants including initial investment in power generation projects. It finances construction costs and pays dividends. Toru Suzuki is the representative director. The top team includes Hiroyuki Kawai (lawyer, Sakura joint law firm) as corporate auditor, Hideki Kato as business manager and Tetsuya Iida (director, of ISEP).

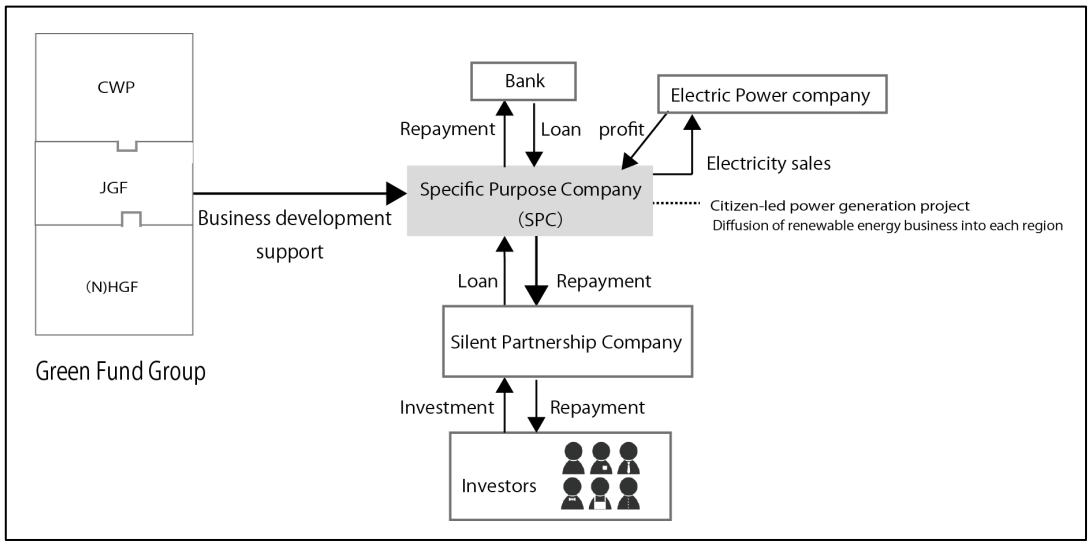


Figure 4: Support for commercialization to regional SPC and development of investment market (source: HGF Activity Report)

[3] Ishikari Atsuta citizen-led wind power generation project is proceeding in cooperation with Ishikari-city and citizen. A part of electricity sale income is donated to Ishikari-city, which establishes environmental town development fund, and it is utilized for local environmental conservation (tree planting activities such as afforestation). 'Aikaze' Citizen-led Windmill Foundation, which gets and distributes equity investment from citizens, will return 1% of the loan interest rate to the regional promotion organization in Atsuta (Suzuki, July 4, 2014).

[2] ***Role of Japan Green Fund – Development of Social Investment Market.*** As mentioned above, JGF is a funding company that manages the construction cost of region-led power generation projects, and has three aims: (1) implementation of power generation projects in integration with local residents, (2) Design and development of business model conforming to the region, (3) Implementation of collaborative projects across sectors. It plays an important role in phase (1). With fund composition, JGF paves the way to achieve phases (2) and (3), by overcoming the fund procurement barrier faced during the development of an entity in a region (Figure 4). It develops the investment market of power generation business.

The composition model of the fund as mentioned above was hardly seen before 2003. In the power generation business, which is also a regional infrastructure business, if profit is made selling power, the price fluctuation risk is low and a stable dividend will be generated. However, in the wind power generation business, upfront investment costs related to wind condition survey, environmental impact assessment and research and development are high. Therefore, most NPOs and small and medium enterprises could not enter this kind of business. HGF got into the field with CWP and created a stable business model that can be a model business entity for other NPOs and small and medium enterprises.

A model that made it possible to procure its initial investment cost was Citizen-investment model that utilized a silent partnership contract (Article 535-542 of the Commercial Code)[4]. Citizen-investment[5] was developed from HGF's original project, the Green Fund (Green Electricity rate system), which enabled citizens to participate in wind power generation project (Kojima, 2010, 270-279). The JGF is also implementing fund composition related to such citizen-led windmills power generation projects in businesses other than wind power generation business, and the combination of shareholders is diversifying year by year. 'Citizen-financed Windmills 2006 Anonymous Association' that collected funding for windmills to be constructed in 2006 (Nishikido, Maruyama, 2006) is a pioneer of a fund model that raises multiple funds from various sources (Securities Reports, Kojima, 2010, 278), which was devised to reduce anxiety arising in wind power generation. Citizen investment has accelerated nationwide, including in the Odawara-city and Aizu-city of Fukushima prefecture since 2011, due to the composition of 'Ohisama Fund' in Iida-city, Nagano prefecture and solar power generation business. In Hokkaido, Aomori, Akita and other prefectures (11 in total), funds combining the regional bank credit facilities and citizen-led funds have been formed as of 2016. HGF established a joint fund company and made it

[4] Anonymous association means a form of contract where one of the parties (silent partner) makes a contribution to the business of the other party (business operator) and promises to receive the distribution of profits obtained by the project. The funds of the partnership between the business operator and the silent partner are attributed to the business operator, and the business operator conducts the commercial acts specified in the contract contents with his own authority. The business operator can freely design the contents of the contract within the principle of the Commercial Code. The partners are obligated to share the equity and loss, but they do not take any responsibility for third parties and are not responsible for losses exceeding the invested amount (Green Fund Document, 2014)

[5] Citizen-investment has a direct investment model and an indirect investment model. The former is a scheme in which an entity calls for investment in order to conduct a business. The latter is a scheme in which a funding business enters into investment to finance a power generation business. The power generation company installs facilities and sells power to electric power companies. This scheme was designed because, in case of an NPO, the entity of power business cannot distribute profits (Green Fund Document, 2014).

possible to pay dividends to investors who are not directly connected to the NPO. The JGF has been responsible for the composition of funds that reduced risk and for investment for recruitment and operation, making the market investment in renewable energy visible. Today 'Renewable Energy Fund' has become established as a kind of infrastructure fund, investing in renewable energy projects (Renewable Energy Investigation meeting on information disclosure, 2016) and gives investment confidence to both individuals and finance institutions for participating in this market. For the funds procured through Citizen-investment, local citizens who invest will be repaid over a 20-year period and part of the power sales profit will be given for local economic promotion, the environment and welfare. HGF with JGF has developed the above investment market and played the pioneer's role in promoting the local citizen-led business generation as a vibrant business development in diverse regions.

2-2-3 *Hokkaido Green Fund is a Source of Social Mission*

HGF is instrumental in effecting the business model and corporate culture of the two companies listed in the preceding paragraph. In this section, after explaining the outline of the project, we focus on the organization form of HGF and analyse the characteristics of the management form using the interview survey results.

[1] ***Business Contents of Hokkaido Green Fund.*** HGF was founded in Sapporo-city in 1999. The president is Toru Suzuki and its annual business scale is about 110 million yen (2015). HGF has led the establishment of 21 citizen windmills including Hamakaze-chan, the first citizen windmill that started commercial operation in Hamatonbetsu-cho in 2001. An annual output of about 29,000 kW and energy equivalent to about 19,000 households (average household waste 68 million kWh/year [Federation of Households]) is being supplied. Citizen investment is an average of 600,000 yen per case, achieving a profit distribution of 2 to 2.5%. As a result, HGF has established citizen-led wind power generation in different regions and spread HGF and CWP's SPC[6].

The HGF and the group organization roughly followed four development phases to arrive at its current form. Phase 1: period of NPO establishment (a citizen-windmill construction with green electricity rating system and citizen-investment, the first in Japan); Phase 2: period of CWP and JGF attached to NPO; Phase 3: period of Development of citizen-led power generation projects in different regions ~ Application to power generation business other than wind power business; Phase 4: period of Start of medium-scale power generation business. In Phase 2, it overcame the 'sustainability of business' barrier faced by existing NPOs and pioneered the renewable energy market. At the same time, through policy advocacy projects, they have opened the beginning of the reform of electric power system (Kato, 2015). In the community, by providing products, citizen-led renewable energy projects were launched and the renewable energy market spread. In the above HGF practice, there is a business model (= social change model) 'to realise a renewable energy society by utilising the market system

[6] Examples of the establishment of power generation companies in various places include NPO Green Energy Aomori, an NPO that was supported by Green Fund in Aomori Prefecture in 2001, Green Fund Ishikari in 2004, etc. The established citizen windmills are 'Karinpu' (2004) and 'Gazeru-chan' (2004) of Ishikari, 'Tenpu-maru' (2003) in Katagami in Akita Prefecture and 'Wandzu' (2004) in Ajigasawa in Aomori Prefecture. Completed by 2007 were Ooma in Aomori Prefecture, Akita in Akita Prefecture, Asahi in Chiba Prefecture and Kamisu in Ibaraki Prefecture, and by 2014, Wajima in Ishikawa Prefecture, and Nikaho-city and Yuri Honjo-city in Akita Prefecture, have been in operation.

and policy advocacy of the national government and local governments' (Kato 2015). In its business model, HGF's NPO philosophy of 'social change and citizenship' is inherent.

[2] ***Role of the Hokkaido Green Fund - – Form the Philosophy.*** In this section, in order to grasp the characteristics of the management form in which HGF's business can be carried out, four points of view (sharing of mission, governance, organization management, business integration) have been given, interviews were conducted[7]. The results are as follows.

Mission sharing. Director, Toru Suzuki, Secretariat officer, Yumi Kobayashi of HGF and Director of CWP, Hideki Kato understand and share the business objectives, activities and action principles specified in the Foundation letter and articles of incorporation. HGF has consistently implemented activities to realize its business philosophy, 'The citizen transforms the existing society into a renewable energy society'. The purpose of the project, the content of activities and the principle of action are apparent from the whole HGF movement. At the same time, the idea of emphasising 'connection between people and people, organisation and organisation' has spread.

Governance. There is an organizational climate that make free discussions possible at the HGF, and there is a mechanism of decision making by the General Assembly / Board of directors. The Board and the Secretariat have clearly defined the division of roles and responsibilities. The secretariat gives business and accounting reports to the Board every year, and the contents of the proceedings of the board are documented. At the Board, they are constantly seeking ways to overcome problems by conscious awareness of 'existing activities' and 'business opportunities of new developments'. They understand the laws related to organization management and activities and business, and projects are implemented consistently and continuously in a systematic way. The secretariat, in addition to business related to power generation projects, is responsible for dissemination and awareness projects such as multiple co-ordination and events / seminars (HGF Activity Report, 2000-2015).

Organization management. The HGF's mission is clear, medium- and long-term plans have been formulated and the risks faced are grasped. Business missions are communicated to society through dissemination and awareness projects. Funds necessary for the project are procured through membership fees, donations, green electricity rate system, public funds for consignment of survey and research consignment, subsidies from private foundations, power sales revenues and consulting businesses that are set up in the area. There are changes in revenue depending on the operating rate of the windmill, but fixed costs are covered, and overall business profit is increasing. Financial management is implemented in compliance with NPO accounting standards, external audits are conducted and an activity statement is released. Regarding power generation projects, the financial management of the financing operations of JGF is reflected.

[7] We designed a survey form based on the NPO organizational diagnosis by the Public Resource Center (Public Resource Center 2009) and conducted interviews with Director Toru Suzuki and Secretariat officer Yumi Kobayashi of HGF. The detailed method is a semi-structured investigation using face-to-face questions. It took 7 times in total from April 2014 to February 2015. The examination items are (1) personal history: 4 items, (2) mission: 2 items, (3) governance: 7 items, (4) organization management: 12 items, (5) business integration: 2 items (see note).

Business integration. Although HGF, JGF and CWP are independently managed, the management philosophy and social mission are engraved in the minds and hearts of the staff of all three, as is evident from their decision-making and utterances. Monitoring of the progress of a citizen-led windmill project through to the goal is carried out at each company. There are policy advocacy projects in the HGF's business, and they are involved in the formulation of energy policies in various areas such as Hokkaido Prefecture, Sapporo-city, Ishikari-city in Hokkaido and so on. The directors' plan is to realize the concept of 'strategically integrating the outcome of the Green Fund Group into the renewable energy policies of the national and local governments'.

From the above results, we summarize the characteristics of HGF. There are three ways in which the organization differs from other NPOs: First, the firm's organization management and financial management are being implemented. Second, it has diversified profitability. As a result, they can ensure the sustainability of their business without depending on the government subsidies[8]. The reason for this characteristic is their business model that aims to change society; the business model includes HGF's idea that 'citizens transform existing society into renewable energy society', and they can actually operate it. Third, the HGF is implementing policy advocacy projects and participating in formulating new energy policies. As a result, the projects' influence and the new energy policy are integrated in the region and advance further.

The above characteristics indicate that the role of HGF in the Green Fund Group is 'to form a philosophy that continues to realise social mission'. In order to realize a social mission, HGF has grown into a sustainable NPO by acquiring a new management form and preparing practical skills and business schemes as described above.

2-3 ***Results of Analysis: Derive Management Model with New Management Form***

In this section, we summarize the characteristics of the management form of the Green Fund Group and derive a business management model from these case studies. This model is that regional integrated entities share an aim with local residents.

2-3-1 *Three Features of Management Form of Green Fund Group*

In the management form combined with HGF, CWP, and JGF, we see that HGF possesses financial and governance functions at the level of a commercial enterprise, while overseeing a citizen-led windmill projects with JGF. The principle of harmonization with the environment and natural capital takes root (Suzuki, July 14, 2014, Kato, September 25, 2014, Kobayashi, September 12, 2014). As a result, the Green Fund Group has overcome the problems traditionally facing NPOs, notably 'non-sustainability of business' and unequipped in management form 'to return the profits to the region with a long-term perspective'. We summarize the characteristics of the regional revitalization project through the renewable energy project of the Green Fund group with such a new management form.

The first feature is that profits are returned to the area. HGF and two companies have been promoting wind power generation projects in line with regional decision-making. In the process, they established a power generation business model with regional NPOs and

[8] Suzuki responds to our question of 'Did you achieve a level of governance transfer from the companies to the NPO? ' by saying 'Yes gradually, HGF, CWP, JGF has been committed to assemble business models according to the real circumstances of each region, seeking to launch a renewable energy business to earn profitability, to evaluate early stages. This practice results in business scale and expansion in other areas, which is the factor behind the next generation' (Suzuki, 14 July 2014).

companies as business entities and direct financing mechanism by citizen-investment. When the benefits of the power generation business rooted in the community, are returned to the area, how to utilize the benefits will be examined and this in turn induces an independent community.

The second feature is the ability to develop and promote wind power projects that are compatible with business profits and environmental conservation. HGF has aspects of environmental NPOs that conduct environmental education and dissemination awareness projects. In policy recommendation it is also working with Institute for Sustainable Energy Policies (ISEP) which has been proven as an NPO. CWP has grown to be one of the leading companies of small- and medium-sized wind power generation operators, which possesses a sustainable wind power generation model and operation technology, from 10 years of research and development (Kato, September, 25, 2014). The procurement of the initial cost which is a difficulty of the citizen-led power generation business is carried out by the JGF. In this way, the two companies will work with the NPO to promote the windmill business where profit and environmental concerns are equally compatible. Promoting power generation projects in harmony with the local natural environment (which secures natural capital and social capital) will increase the sustainability of the primary industry-based region mainly over the long term. The corporate image of these two companies will become future-oriented with harmony with the environment and social changeability that collaborate with NPOs.

Table 1: Green Fund Group utilizing three management forms

	sector	Management style	Behavioral principle	Feature	Skill	Organization within the Green Fund Group
1	Social Sector	NPOs	Citizenship Social changeability Non-profit	Returning profits to the region Non-allocation of profit and loss	Integration of regional decision making and business outcomes	NPO Hokkaido Green Fund
2	Private Sector	Corporations	Pursuit of profit Business sustainability	Fundraising with equity Limited liability Returning profits to shareholders allocation of profit and loss	Marketing Promotion Expertise Business Development Financial management	Community Wind Power Co., Ltd. Japan Green Fund Co., Ltd.
3	Public Sector	National/Local government	Equality / Fairness Non-profit	Regional resource management Fiscal policy	Policy Making	NPO Renewable Energy Organization of Hokkaido

The third feature is that the organization necessary to realize the business philosophy is established by selecting a real corporate form and incorporated into the group's business system. The Green Fund Group has a management forms of both an NPO and a corporation within the group so that it can cooperate with both public sector organizations and private sector organizations (Table.1). In cooperation with local governments, HGF, which is a nonprofit organization, is the main entity, and citizen-led wind power is mainly used for business alliances with private business. With this system, in the development and planning stage of power generation projects, HGF supports local NPOs, and after the project is established, CWP implements business development and maintenance business, so that the continuity of business is secured. Furthermore, a situation is created where companies in the group can capitalize with other companies in the region to organize projects, establish new

companies, and collaborate with financial institutions and major companies to challenge projects with high impact condition[9].

The fundraising necessary for promoting these businesses is carried out by the JGF, and it has established partnerships with other foundations. On the other hand, there is Renewable Energy Organization of Hokkaido[10], which is an incorporated corporation, as an organization that implements services dedicated to local governments. As described above, the Green Fund Group can cooperate with organizations of all types of management regardless of the sector and form of the partner.

When HGF and CWP are involved in supporting the start-up of the power generation project in the region, it is based on the premise that 'the region decides to do'. This procedure is basically the same also in the large wind farm project like the Akita Katagami Wind Farm, which is expected to generate 66 MW of maximum power with 22 large windmills. It has first, second and third features we described in this section. The project of Wenty Japan Co., Ltd. (president Hiroyuki Sato) [11] which was established that CWP supported in investment, is a the core business of these projects. It was 10 years from project start to the first citizen windmill coming online in Akita-city.

2-3-2 *Derivation of the Process of Creating a Business Entity that Hybridizes NPO and Corporation into a Management Form*

An entity that has a hybrid management form combining NPO and corporation comes about through three processes. The first stage is to design a business system that can bring about a social mission embraced by an NPO. At this stage, the nonprofit activities of the NPO become the core of the business. The second stage is to establish a partnership with a corporation that will handle the business revenues and funding; this is the phase during which commercialization occurs. During this stage, a business model is established, and funding is attained. Individual business goals are promoted, and a new market is developed. In stage three, the business entity that has a hybrid management form combining NPO and corporation works with local residents, and in this stage, projects are implemented in various communities. At this stage, the business philosophy is conveyed to the region where the project/business is being set up. As the business scale grows, as a result of the number of participating entities, the market expands, and technological innovations and cost reduction can be achieved. The first stage is the NPO, the second is the corporation, and the third is the local integration of companies with a hybrid management form, and this leads to projects/business, creating new industry in local areas and supporters (fig.5).

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[9] Wenty Japan Co., Ltd. is an entity was established for the renewable energy business by Fidia Group, including Ugosetsubi Co., Ltd., CWP, Hokuto Bank and others. It is engaged in two wind power generation facilities in operation in Akita prefecture, and 36 wind power generation facilities in 6 places are being under construction or under development (press release, 2016.3.3).

[10] NPO Renewable Energy Organization of Hokkaido was established with 74 mayors of the municipality as the founder in order to implement projects into the local government policy to realize the renewable energy network (2012). Toru Suzuki is appointed to the president.

[11] Wenty Japan Co., Ltd. established Nippon Paper Industries Co., Ltd. (President Fumio Baba) and Nippon Paper Wenty Wind Co., Ltd. to conduct wind power generation project in Mukaihama district of Akita-city (Commercial operation started in 2018). It adopts the EPC method in installing windmills. It ordered Mitsui Engineering Co. to investigation and design (Engineering), substation equipment and other procurement construction (Construction). These Project funds were procured at the project finance of the Hokuto Bank (press release, 2016.3.3).

If the investment market formed in the second stage becomes larger in the third stage, there is a system that prevents "divergence from business philosophy".

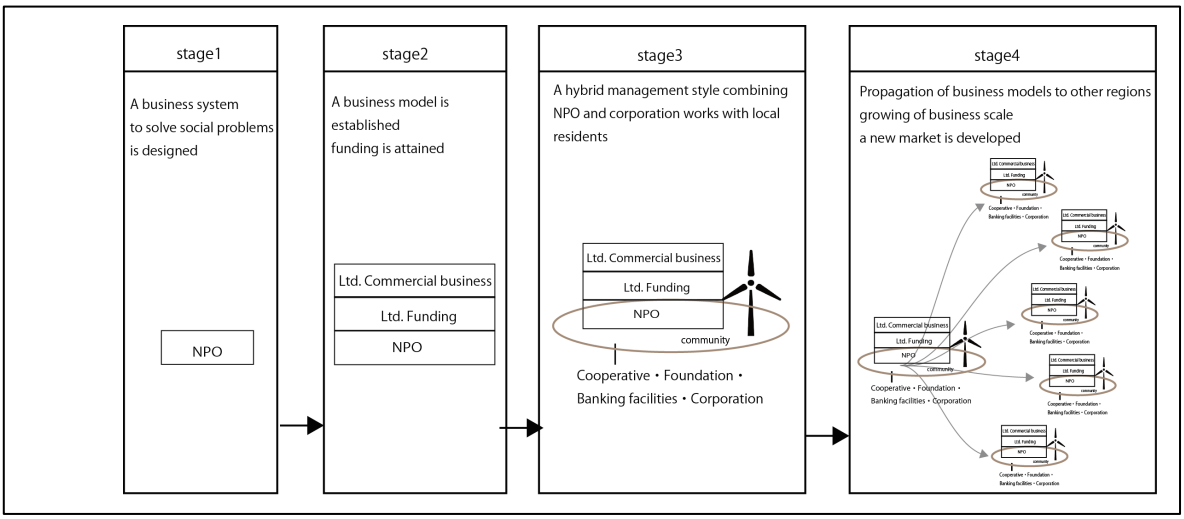


Figure 5：Growth process of a hybrid management form combining NPO and corporation

Chapter 3
Possibility of a Management Form Combined by NPOs and Corporations

‘Management form combined with NPO and Corporations = New management form’ is a method whereby NPOs overcome the difficult elements in the form of management held by existing NPOs, and when tackling a project to solve regional problems. It is a management form model that is useful for realization. In this chapter, we present the possibility of ‘new management form’ of an entity, obtained from case analysis of the Green Fund Group, as a solution to the problem faced by existing NPOs.

3-1 *Management Form of Sustainable NPOs and their Possibilities*

The management form of these NPOs conduct activities in keeping with the projects that allow for profits to return to the local community. Sustainable NPOs conduct secure organizational management and financial management, ensure diversified profitability, and continue to implement projects/business to achieve their intended social mission. Their conduct focuses on making positive changes in society and benefiting citizenry. NPOs solve social issues and contribute to the community through activities that embody these principles.

Although the activities of NPOs are not for the goal of pursuing profit, companies pursue profit. Although these purposes are contradictory, in order for NPOs to continue to supply goods and services to their communities, they need a secure, consistent source of funds for equipment and management. By collaborating with companies and foundations, etc., NPOs are able to do so.

3-2 *Management Form and Possibilities of Corporations that Combines with Sustainable NPOs*

Corporations pursue profits to sustain their business, and their business profits go to shareholders and internal reserves. Therefore, corporations are entities suited to maximizing profits and ensuring business sustainability. A corporation that unites with a sustainable NPO understands and maintains the characteristics of the NPO and cooperates, while also maintaining the advantages that come from the management form of the corporation. The business of a corporation that is working in concert with an NPO brings out and builds up the local residents and business operators. Through this process, apart from the traditional buying and selling between the company and consumers, a business model is devised to produce and offer goods and services that meshes with each community. A business entity that has a management platform that unites both NPO and corporation, as business progresses, begins to share in the citizenship inherent in the NPO, can affect social change, and contributes to the region and community; this creates a corporate culture where it is advantageous to be working with an NPO.

3-3 *Management form where NPO and Corporation Combine = New Management Form and Possibilities*

The hybrid management form in which NPO and corporation are combined has elements of both. Through this composite integrating, both managements form into one, the NPO gains behavioral principles (pursuit of profit, economic sustainability) and techniques (marketing, promotion, financial policies) of a commercial enterprise, and the corporation gains the NPO's behavioral principles (affecting societal change, citizenship) and techniques (solving social issues, integrating the fruits of activities and community-based decision making). The philosophy of the business comes from the NPO, and the sustainability comes from the company; the social mission is conveyed to people and organizations through the business entities involved and the growth in scale of the business projects.

Conclusion

The NPO, by having a profit-oriented department to ensure sustainability of the project, and the company, by adding institutional plans to ensure a social mission, acquire a hybrid management form. An entity with this management form can collaborate with organizations belonging to any sector and can create goods and services that are hard to supply through policy measures, commercial projects, and volunteer activities, providing a stable supply to people living in the community. They can formulate policy, create goods and services, meet with providers and buyers, and join them together in order to establish buying and selling (adjusting for supply and demand) to open up a market whose existence may have gone unnoticed. In this market, investors and consumers can cross paths while fulfilling a social responsibility and take part in raising up the leaders of the business. In this research, these kinds of community-based multiple corporations are called community-based corporations. If the created investment market expands as a result of the business of the community-based corporation, a system that prevents corporations from diverging from their business philosophies is built in regional units.

Community-based corporations have three features. First, community-based corporations have a form of organization that combines NPOs and corporations. Community-based

corporations are generated through three processes. This organization has the characteristics of both NPOs and corporations: NPO's behavioral principles (affecting societal change, citizenship, contributing to the local area) and techniques (integrating project results with community-based decision making), as well as corporate behavioral principles (pursuit of profit, economic sustainability) and techniques (marketing, promotion, financial strength). Community-based corporations are capable of cooperating with organizations in all sectors, and in working with companies, the government, and NPOs, are responsible for the creation of new industry that follows regionally-based decision making; this gives back to the local area. The business model implemented in this process is compatible with environmental conservation and can be altered to better suit each region, to be used by local practitioners. Accordingly, the community-based corporation model is a regional/community-based management model, in addition to being a commercial management form model. Second, community-based corporations communicate a social mission with trust in citizens and consumers through their supplying of products. The philosophy contained in a social mission shares in the practitioners' values, the organization's business philosophy, and the community's vision for the future. Third, a community-based corporation utilizes a network and supports a community's NPO and new businesses from which a platform is opened that forms an ecosystem in the community created by the citizen-led businesses. The result is that, with this platform as an intermediary, a wide variety of organizations that exist separated from other regions become autonomously and equally connected with organizations both inside and outside the region, forming an organic network system.

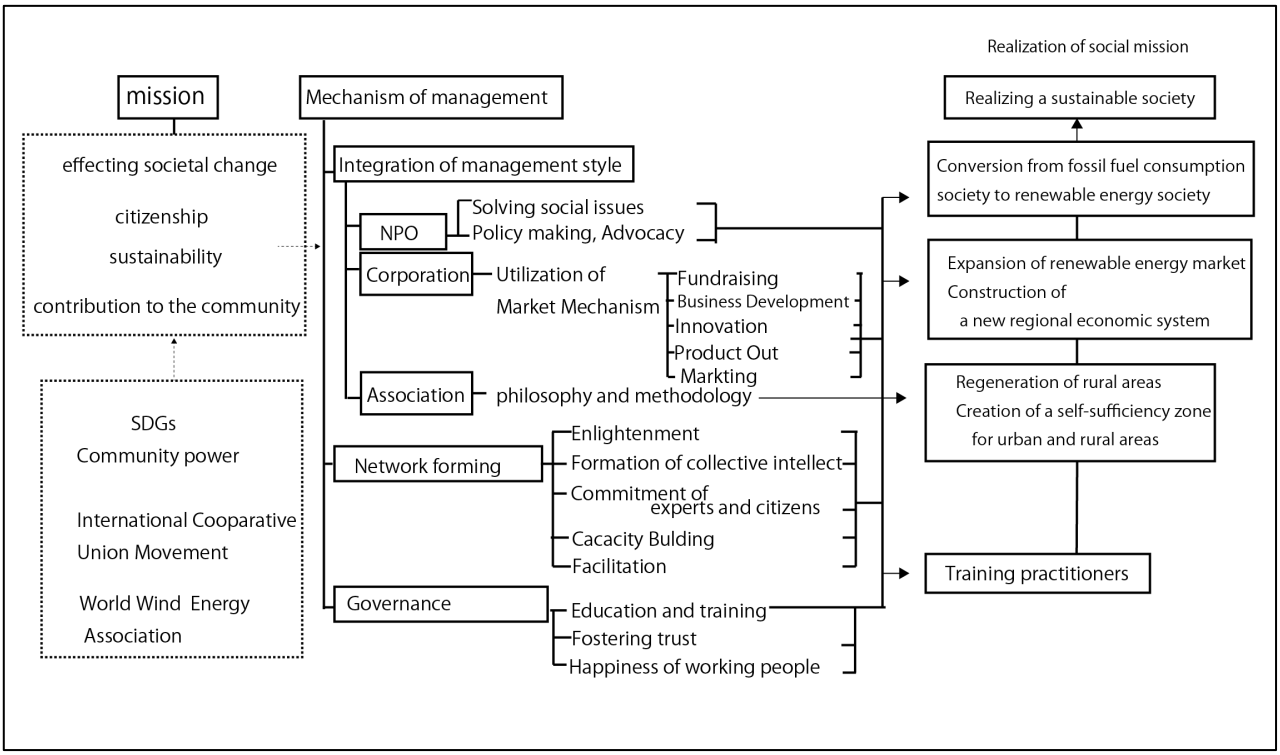


Figure 6: Structure drawing of Community-based Corporation

In short, in the creation of community-based corporations, the citizens responsible for policy planning and the citizens creating a form of regional economy work together, and such a corporation creates the possibility of forming a community（fig. 6）.

HGF, which recognized Elektritätswerke Schönau in German[12] as an advanced case, adapted this model for the Japanese situation, creating 11 forms of business model (Suzuki, 14 July 2014). They customized it to a hybrid type organization - a model that can be used in various parts of Japan. Thus it can be seen that similar forms of power generation and transmission can be duplicated in another country by energy cooperatives[13]. It is valuable to realise that solving the problems of Japanese rural areas in this way, can contribute useful knowledge to citizens of another countries. Even in places with different kinds of society, regulation, history, national-character or levels of citizen-consciousness, people can take actions to form a system of citizen-led social business, based on a European method.

Discussion

NPOs are struggling to realize their philosophy in the absence of help from the legal system in how to grow the business shown in Chapter 1. Case analysis results of the Green Fund Group suggest the birth of a regional integrated enterprise that can exceed this limitation. This company born through the three stages shown in Chapter 2, Paragraph 3, cooperates with organizations of multiple sectors and reforms the organization in response to reality. An entity with this new management form can provide stable and continuous supply of goods and services that can not be provided only by national and local governments' policies or even private business. And the organization existing at that starting point is a NPO that has problems maintaining a project and exists far from the market principle of the commercial project. NPOs aiming to bear the new regional revitalization project required in various places must seek a way to realize social mission, while responding flexibly in the real world. Rising to the challenge of making a new form of management is one of those options.

[12] Elektritätswerke Schönau (EWS): (https://www.ews-schoenau.de/ews/international/) is a regional co-operative that citizens made with volunteers to realize their ideals when facing the 1986 Chernobyl nuclear power plant accident. At that time, the electricity market was a regional monopoly, so to use natural energy, they had to start a business. They won two referendums, solicited donations nationwide, and finally bought a transmission line. Originally it was only 1,700 households in Schönau, but they could boast over 174,937 customers for electricity and 14,246 customers for bio-gas nationwide (2017 Annual Report). It is an energy cooperative, and it is a symbol of citizen power (Yoshida, 2015).

[13] In Europe, associations are common players in the community-energy business(Yoshida, 2015). But associations in Japan differ from Europe: they operate more as a loose groupings of similar NPOs, without a proactive shared mission and the legal power to take the lead in change or new business development. Basically, Japanese NPOs can not enter the power generation business. Only CBCs can promote the renewable energy business and can generate and sell electricity (Kato,2017c).

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Nippon Paper Industries Co., Ltd. (http://www.nipponpapergroup.com/english/)
Elektritätswerke Schönau (EWS) (https://www.ews-schoenau.de/ews/international/)

(Accessed June 21, 2018)

Note

Questionnaire

Q1 Please talk about the roots of your work.	
	1-1 When did you start activities of HGF
	1-2 What brought you to activities?
	1-3 What kind of activities did you participate in today?
	1-4 What are the current business challenges?
Q２ Please talk about your Organization.	
	2-1 Concerning about Mission
	2-1-1 Is there a clearly- crafted mission?
	2-1-2 Is the mission shared with leaders and staffs
	Concerning about Governance
	2-2-1 Is there an atmosphere that you can freely discuss?
	2-2-2 Are the representatives and the leader telling the staff about the direction to go?
	2-2-3 Is information transmitted between the leader and the staff?
	2-2-4 Do you think that management is making the right decisions?
	2-2-5 Do you think that your oganization have a mechanism to comprehend and comply with laws and regulations related to organization management, activities and business?
	2-2-6 Does the Secretariat report to the Board on business and accounting every year?
	2-2-7 Is the content of the Board recorded as a document?
	Concerning about Management
	2-3-1 Do you publicize the articles of incorporation, organizational structure, etc.?
	2-3-2 Do you publish the annual accounting report?
	2-3-3 Have you accomplished fund procurement necessary for your business?
	2-3-4 Do you have effective media stakeholders and publicity routes?
	2-3-5 Are you prepared for public relations?
	2-3-6 Are you aware of the risks your organization faces?
	2-3-7 Do you actively accept volunteers?
	2-3-8 Is there proper financial management and external audit?
	2-3-9 Does business revenue increase?
	2-3-10 Are fixed costs covered?
	2-3-11 Is the mission clear and medium / long term plan formulated?
	2-3-12 Are you measuring the project outcome and publishing the results?
Q3 Please talk about business integration.	
	3-1 Does the Board or the Secretariat conduct management of the project as a whole in collaboration with HGF / CWP / JGF?
	3-2 Does the Board or the Secretariat monitor the progress of the whole project of collaboration with HGF / CWP / JGF?