<u>*Working Paper as of 19 March 2012*</u>

The Institutional Context for the Growth and Internationalization of ICT Start-ups in Japan: Evidence from Rakuten and GREE

Masahiro Kotosaka

Said Business School, University of Oxford

Abstract

This paper aims to examine the influence of national institutions on start-up firms' initial growth and internationalization. Focusing on two entrepreneurial start-ups in the ICT sector, this study highlights Japanese institutions in transition, and depicts the way in which rapidly growing start-ups have overcome the challenges posed by the unique institutional environment. This research finds that the rapidly growing firms have navigated through the challenges by avoiding, adapting, or influencing specific institutions. Further, in the process of growth, start-ups have also leveraged inter-firm labour mobility and migration as key mechanisms for initiating and sustaining institutional interaction. Finally, this study argues that the internationalization of rapidly growing firms is being affected by a multi-lateral, rather than bilateral, process of institutional recombination.

Introduction

This study analyzes how the pioneering, rapidly growing Japanese entrepreneurial firms navigate through hostile institutional arrangements. In what ways do the existing institutions facilitate or hinder the growth of start-ups? Why and how do some firms overcome the absence of supporting institutions to pursue grow? And in what ways do these unique institutions affect the internationalization of these firms? This paper addresses these questions by analyzing the influence of the institutional context for growth as well as the internationalization of ICT (Information, Communication, and Technology) start-ups. Focusing on two entrepreneurial start-ups in the ICT sector, Rakuten and GREE, this study highlights the key characteristics of Japanese institutions in transition, and depicts the way in which the rapidly growing ICT start-ups have overcome specific institutional challenges.

The key contributions of this paper are as follows. Firstly, this study shows that Japanese institutions, although in transition, have been generally hostile to start-ups. In the financial and labour markets, the components of the liberal market economy institutions have become visible and layered in a sea of the coordinated market economy environment, but they remain nascent and insufficient to facilitate entrepreneurial activities fully in Japan. In this situation of partial institutional voids, or the absence of the necessary institutional intermediaries, Japanese entrepreneurs have the option of avoiding, adapting, or influencing these hostile institutions. Having the influence to change hostile institutions requires power, and this study generally found instances of avoidance and adaptation over time.

Secondly, this study theorises the way in which entrepreneurial firms recombine the multi-layered institutional environment. The finding suggests the significance of personnel migration for institutional interactions. Start-ups hire managers who are influenced by a variety of existing institutions, and these managers interact each other, building their own mix of social systems within the firm in order to achieve growth. Managers play a vital role here. They are not just a catalyst of institutional innovation but also provide a bridge between the different institutional environments. This paper argues the value of analyzing this at a deeper level of granularity, especially in the newly emerging sectors that are rapidly absorbing a large number of workers from the surrounding firms and sectors.

Finally, this study theorises the interactions between national institutions and rapidly internationalizing firms. The finding suggests that the rapidly internationalizing firms interact with the host market institutions differently to firms that adopt a more gradual approach to internationalization. This paper calls this approach “multilateral”, in contrast to “bilateral”, as is typical in a gradual internationalization path. This study describes how different working cultures and systems are transferred between different locations, and demonstrates empirical evidence of the unique concurrent development of globally unified corporate cultures and systems.

In the following sections, I firstly discuss the theoretical background together with the data and methods. In the main body, this study describes the key characteristics of the Japanese ICT sector with a focus on their possible influences on start-up firms, and then presents the cases in order to investigate the detail of how the institutional arrangements actually influence their strategies for growth and internationalization. Finally, I conclude this paper by discussing the implications of the findings.

Theoretical background

The long tradition of comparative political economy studies acknowledges the interactions between the firm and the market. Social norms influence entrepreneurial activities (Weber, 1935); the market as a whole is embedded in society, which reflects the morals, politics, religious values, and other non-economic factors (Polanyi, 1944; Granovetter, 1985; Block & Fred, 2003); and different environments lead to different needs for achievement, power, and the affiliation of those in society (McClelland, 1961). Therefore, the environment shapes the market and organizations, at least to a certain degree (Aldrich, 1979; Flisgstein, 1990). Developed institutions often constrain the behaviour of firms because certain ways of structuring and executing activities will be better supported and obtain legitimacy, increasing the chance of prosperity in the given environment (Meyer & Rowan, 1977; DiMaggio & Powell, 1983; Granovetter, 1985; Oliver, 1997). The institutional environment influences the performance of the economy and the firms operating within it (North, 1990; Powell & DiMaggio, 1991; Scott, 2008).

More recently, researchers have focused their attention on the process by which organizations within a specific institutional environment develop homogeneity (or diversity) in terms of their structure, culture, and output (Streeck & Thelen, 2005). This has led to the investigation of the agents and mechanisms that trigger institutional change (Mantzavinos, 2001). Consequently, comparative political economy studies have acknowledged the greater role of firms, particularly the role of entrepreneurs, in developing, transforming, and changing the national institutions in a variety of ways. The traditional conceptualization of the institutions as constraints to the firms, which describes the firms as rather passive actors in the given environment, is gradually eclipsed by the increasing awareness of the resource aspects of the institutions (Garud, Hardy & Maguire, 2007). The firms could be active actors, interacting with the environment and recombining the existing resources from the multiple institutional layers to which they have access (Crouch, 2005). Pioneering entrepreneurs are often institutional entrepreneurs who trigger institutional innovation, by changing the ways in which they and their followers conduct business and interact with the rule-makers to promote new methods (DiMaggio, 1988; Streeck & Thelen, 2005).

Following the development in the comparative political economy literature, a stream of research in the international management literature investigates the significance of country effects on firm behaviour and performance (Dunning & Lundan, 2008: 126-129; Jackson & Deeg, 2008: 542-545; Peng, Wang & Jiang, 2008: 921-924). The country specific effects have been explored in research on the determinants of firm performance variance (e.g., Christmann, Day & Yip, 1999; Makino, Isobe & Chan, 2004; Brito & Vasconcelos, 2006; Tony, Todd, Jeffrey & Asda, 2008; Goldszmidt, Brito & de Vasconcelos, 2011), or by adopting a more focused approach that investigates the influence of an aspect of the institutional environment, such as the political system (Brouthers & Bamossy, 1997; Delios & Henisz, 2003; Ring, Bigley, D'Aunno & Khanna, 2005), contract enforcing system (Greif, 1993; Djankov, Glaeser, La Porta, Lopez-de-Silanes & Shleifer, 2003), and the actor's country orientation (Hitt, Dacin, Tyler & Park, 1997). The findings suggest the significant influence of country-specific factors on firm performance. Most international management scholars would agree that, "the economic, political, and social institutions form the institutional environment, and they formally or informally determine the firm performance, with the specific characteristics of the industry structure and the firm resource and capabilities" (Chan, Isobe & Makino, 2008: 1181-1182). While one might argue that globalization has reduced the importance of country-specific factors, these remain influential on firm behaviour in this globalized, international business environment (Ghemawat, 2003; Hawawini, Subramanian & Verdin, 2004).

However, despite the increasing recognition of the greater role of the firm, most studies in the comparative political economy literature focus on comparing the influences of a subset of two or more institutional arrangements on firm behaviour. Few studies provide a comprehensive picture of how the overall institutional environment influences the firm by providing specific case examples. While a number of sectoral-level analyses exist, how exactly the firms contribute to the dynamics is not explained in detail. Further, the international business (IB) literature tends to treat institutions as uni-dimensional variables, devoting little attention to their topography and diversity (Jackson & Deeg, 2008: 541). Most of the analysis focuses on the influence of the differences and similarities between the home and host markets, and only a few studies investigate how the internationalization path might be influenced by the institutional structure of the home market. As less is known about exactly how institutions affect the behaviour and performance of firms as they internationalize, the IB literature is in the process of building a formula for integrating this third leg after the traditional industry- and resource-based views (Peng et al., 2008: 921).

As Jackson and Deeg (2008) and Peng (2008) discussed, there are research gaps where these two research streams converge. While the IB literature acknowledges the significance of the institutional environment, the analysis is mostly about the influence of the similarities and differences between the home and host countries. Furthermore, the absence of concrete theoretical ground leads to the varied operationalization of institutional factors in quantitative models. The internationalization literature often focuses on entrepreneurial orientation, network, and capabilities and knowledge accumulation to explain the process; however, limited attention is paid to the influence of the institutional environment. Similarly, comparative political economy studies will produce additional insights by adopting a more firm-centric approach, as demonstrated by Lehrer (2000) in the European aviation sector. A firm-centric analysis can provide an example of how the sub-systems of the institutions might influence the firm's strategy. Understanding the entrepreneurial process by linking the institutional theories and firm behaviour with qualitative evidence from in-depth interviews should help to produce more dynamic insights (Herrmann, 2010: 745).

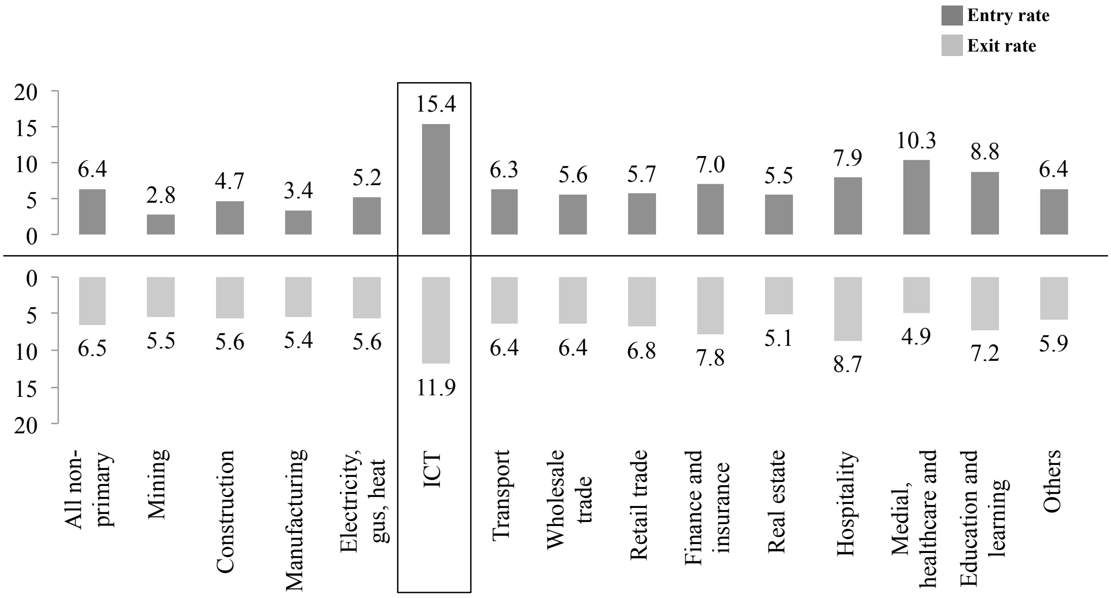
In order to address the research gaps, this study is designed to understand how the institutional environment influences the way in which the firms emerge, grow, and internationalize. This paper analyzes the possible influence at the firm level by referring to case examples, and investigates the following research questions: 1) In what ways do the existing institutions facilitate or hinder the growth of start-ups?; 2) Why and how do some firms overcome the absence of supporting institutions in order to pursue growth?; and 3) In what ways do these unique institutions affect the internationalization of these firms?

Data and methods

Data

Our analysis focuses on Japan because Japan is a developed institutional environment in transition where this research expects a higher degree of institutional interactions between the different institutional frameworks. The ICT sector is selected because the entrepreneurial activities in this sector are the highest among the industries in Japan (see Figure 1).

Figure 1 Entry and exit rates by industry in Japan (2004-2006)



* Compound services are excluded due to unusual factors concerning the statistics. The data for this category is: entry rate of 31.2%, which becomes 3.1% if the sub-category Postal services (20,023 establishments) are excluded.
** Circled industries are those in which entry rates exceeded exit rates

Source: The Small and Medium Enterprise Agency (2008: 145)

This paper analyzes two rapidly growing and internationalizing start-ups: Rakuten and GREE. They are the two highest valued firms in the Japanese ICT sector in the past 20 years (from 1992 to 2012), judged by the market capitalization as of February 2012, excluding Yahoo! Japan, which is a joint venture between US Yahoo and SoftBank, another highly valued Japanese start-up that was established in the early 1980s (see Table 1). The rapid growth of these two firms enables us to observe the longitudinal process of their growth within a short period. The comparison of two firms, which were established at different points in time, allows this research to discuss the possible transition in the Japanese institutional environment in the past 20 years.

Table 1 The top 20 Japanese ICT start-up companies established between 1992 and 2012

Rank	Company Name	Year Founded	Primary Industry	Market Capitalization (JPYmm)
1	Yahoo Japan Corporation (TSE:4689)	1996	Internet Software and Services	1,437,805
2	**Rakuten, Inc. (JASDAQ:4755)**	**1997**	**Internet Retail**	**1,087,344**
3	**Gree, Inc. (TSE:3632)**	**2004**	**Internet Software and Services**	**614,092**
4	Jupiter Telecommunications Co. Ltd. (JASDAQ:4817)	1995	Cable and Satellite	540,145
5	Nexon Co. Ltd. (TSE:3659)	2002	Home Entertainment Software	470,906
6	Dena Co. Ltd. (TSE:2432)	1999	Internet Software and Services	340,999
7	Start Today Co., Ltd. (TSE:3092)	1998	Internet Retail	197,875
8	Kakaku.com., Inc. (TSE:2371)	1997	Internet Software and Services	163,824
9	CyberAgent Inc. (TSE:4751)	1998	Advertising	163,190
10	Elpida Memory Inc. (TSE:6665)	1999	Semiconductors	97,299
11	So-net Entertainment Corporation (TSE:3789)	1995	Internet Software and Services	71,576
12	eAccess Ltd. (TSE:9427)	1999	Internet Software and Services	63,309
13	Digital Garage, Inc. (JASDAQ:4819)	1995	IT Consulting and Other Services	48,548
14	Mixi, Inc. (TSE:2121)	1997	Internet Software and Services	35,674
15	Cookpad Inc. (TSE:2193)	1997	Advertising	27,391
16	Gmo Payment Gateway Inc. (TSE:3769)	1995	Data Processing and Outsourced Services	26,898
17	Dwango Co. Ltd. (TSE:3715)	1997	Application Software	25,731
18	KLab Inc. (TSE:3656)	2000	Application Software	24,643
19	Macromill, Inc. (TSE:3730)	2000	Internet Software and Services	22,734
20	ITC Networks Corp. (TSE:9422)	1997	Technology Distributors	21,780

Source: Capital IQ, as of February 2012

Multi-methods are utilized for the data collection in order to triangulate the findings (Eisenhardt, 1989). This study obtains the data from 26 in-depth interviews with the key executives (conducted between 2006 and 2012), 5 participant observations at the headquarters and at overseas locations, and archival data such as internal documents, public speech transcripts, industry reports, and media coverage. This study also refers to the earlier works investigating Rakuten and GREE, most notably Yamaguchi (2004), Kodama (2005), Kawakami et al (2010), Kotosaka (2011) and Sako and Kotosaka (2012), and triangulates their findings using our primary information sources.

Analytical methods

This study adopts an exploratory, case-based theorising approach and analyses retrospective case studies of the two firms (Eisenhardt, 1989; Yin, 2006; Eisenhardt & Graebner, 2007). The main analysis techniques are cross-case synthesis and cross-case comparison (Yin, 2006). The perspectives are developed through the inductive, iterative process of theory development, and are constantly revised until they sufficiently and accurately explain the empirical evidence observed (Miles & Huberman, 1994; Glaser & Strauss, 2006; Yin, 2006: 47).

One might argue that the influence of the institutional context on the success or failure of a firm is less significant relative to the management decisions that a firm makes and the competitive landscape of the particular sector in which it operates. However, as both management studies and comparative political economy studies acknowledge, the general trajectory of firms in the same environment often follows the patterns associated with the macro environment. This research refers to the cases in order to depict the general forces at work in the Japanese institutional environment, and acknowledge that more direct competitive forces have influenced the specific examples in their development process.

The analysis firstly highlights the key characteristics of the Japanese institutional environment for start-ups, and then focuses on analysing the two firms that rapidly expanded both domestically and internationally in the hostile institutional environment.

The institutional environment

Japan: a coordinated market economy in transition

The literature generally predicts that Japan will provide a feeding ground for long-term relationships, incremental innovation, and larger corporations and corporate groups (Hall & Soskice, 2001). The Japanese system is defined as a stable system in which the sub-systems interact with and complement each other (Aoki & Okuno, 1996). Lifelong employment, consensual decision-making, inter-company networks, long-term investment in training, research, and quality control, and the smaller role of shareholders has characterized the Japanese systems of management (Aoki & Dore, 1994). The Japanese type of venture innovation is often attributed to incremental innovation, whereby the collaborative efforts of engineers and designers gradually improve the specifications of the existing product concepts and deliver a higher standard. In contrast, the ideological typology depicts Japan as hosting challenging and hostile institutions for new technology venture firms due to, for example, the difficulty of obtaining loans and the inflexible labour markets.

However, the end of the bubble economy is considered a turning point that highlights the gradual slowdown of success and the beginning of the new reality. A number of scholars and business leaders have discussed the causes of the underperforming economy (e.g., Ito, 2002; Matsumura & Okuno, 2002). In order to stimulate new growth, Japan has implemented a variety of policy changes and system refinements in order to catch up with the other high performing economies with regard to new business creation, most notably the United States (WERU, 2000; SME Agency, various years). Consequently, many of the initiatives were designed to challenge the institutional underpinnings of the Japanese form of capitalism.

By the late 1990s, diverse patterns of organizing have become evident (Sako, 2005, 2007). A number of new stock exchanges have been established, and Japanese venture capitals have changed the way in which they finance start-ups. The development of atypical forms of employment was accompanied by the gradual breakdown of the lifetime employment myth. The processes of institutional change can be described as “layering” and “conversion” (Streeck & Thelen, 2005; Sako, 2007). Japan has been a prominent example of the coordinated market economy; however, it is now in transition, incorporating a number of characteristics of the liberal market economy (Dore, 2000; Sako & Kotosaka, 2011).

The influence of institutional factors

Japanese start-ups in the ICT sector are in a unique institutional setting. This section analyses how the current Japanese institutional environment might influence start-ups’ initial growth and internationalization, by referring to the subsystems of Coordinated Market Economies: the financial institutions, labour institutions, and inter-company relations (Hall & Soskice, 2001, 2009).

Financial institutions

The Japanese financial institutions are characterized by “patient capital” that prefers a stable return over the long term. The main banking system does not usually intervene if the operation is going well (Aoki, 1988). While the popularity is decreasing, cross-share holding reduces the influence of shareholders (Okumura, 1997). The managerial influence of financial institutions is less significant than the influence of employees, business partners, and the market (Kawamura, 2002). The absence of an active market for corporate control means that corporate growth tends to occur via organic growth, rather than through M&A. This applies to established firms and new start-ups, with regard to both domestic and international growth.

The well-developed Japanese main bank system is generally out of reach of start-ups. Large firms in the ICT sector tend to develop new technology internally, and are hesitant to invest in venture business. The Japanese financial system retains aspects of relational financing even after the impending financial deregulation (Aoki & Dinc, 1997). As it often takes time to build up a track record and legitimacy to secure sufficient external funding, start-ups in the ICT sector tend to rely on internal capital and their own cash flow, especially in their very early stage. While there is a long history of new venture financing systems, the new stock markets and venture financing are generally operated in a way that will not effectively stimulate the early stage growth of technology start-ups (Milhaupt, 1997; Hata, Ando & Ishii, 2007; Sako & Kotosaka, 2011). Although the government and financial institutions attempt to implement new systems and regulations, the Japanese financial system tends to invest in more incremental and established business ideas that bring investors smaller but stable profits without any significant risk.

Therefore, the banks' money concentrates on a small group of profitable, expanding firms. The capital markets provide abundant capital only to companies promising success. This means that, once successful, one can enjoy strong bargaining power. The newly established emerging equity markets give abundant capital to the select group of profitable venture start-ups. The successful start-ups established between 1988 and 1998 reflects the greater contribution of the public support programme and venture capital than in the past (NITSTEP, 1999).

However, the move towards internationalization is often accompanied with liabilities of outsidership that increases the risks and costs (Johanson & Vahlne, 2009). Especially for those start-ups that are subjected to the liabilities of newness (Aldrich & E., 1994) and smallness (Freeman & John, 1983), financing an ambitious overseas expansion has proved a greater challenge. Established Japanese firms firstly establish a profitable domestic business or find promising overseas customers to finance their initial internationalization. This means that the internationalization tends to be gradual, and follows the expansion of domestic business.

Labour institutions

The Japanese labour market is characterized by a stable 'lifetime' employment norm and a seniority-plus-merit reward system. Established Japanese firms tend to rely on internal education and training systems. The higher education institutions provide "signalled" candidates with general skills, but the companies educate this "raw talent" through apprenticeships and unique training programmes, decreasing the chance of them being poached by other companies. The tailored human resource understands the internal language and the way in which the company works in depth, increasing the sense of community and quality of communication within both the firm and the sector. On the other hand, this specific practice, combined with the long-term employment norms, increases the costs of hiring managers from established organizations for start-ups due to the need for significant "unlearning" that the newly recruited managers must undertake. Therefore, start-ups tend to hire managers from other start-ups in the ICT sector because they tend to share a relatively similar corporate language, skills need, and culture. Moreover, the Japanese education system has been relatively weak in educating international talent, compared with the US and UK.

The long-term employment norm and wage systems encourage workers to commit for longer to a single company in order to gain higher rewards (Mincer & Higuchi, 1988). This arrangement typically benefits firms with internally developed education mechanisms and a pool of personnel resources. However, it is also designed to prevent outsiders from accessing the secured labour force, increasing the difficulty for start-ups to recruit proven talent from the labour market. Further, while the Japanese management system is characterized by collaborative decision making with higher authority for middle managers, start-ups tend to follow a top-down approach. The managers of Japanese firms experience a wider range of job functions, whereas their western counterparts specialize more in a specific business function. Two problems arise from these mismatches. Firstly, entrepreneurs often find it difficult to understand the way in which larger companies make decisions, increasing the cost of collaboration between new firms with innovative technologies and larger firms with customers and resources. Secondly, the managers recruited from the established companies often find it difficult to understand the different decision-making system, decreasing the performance of the once high-performing managers in the start-ups' new working environment, and increasing the costs of finding skilled resources from the market. In addition, the large Japanese companies had a tendency to transfer Japanese systems to foreign locations in their internationalization efforts. A stronger, centralized control of the headquarters is evident in the host operations. Less emphasis has been placed on developing an international working culture and system. Job rotation in a short cycle prohibits the accumulation of knowledge and networks. The internal structure of the firm has been focusing on developing a strong monoculture, while the international operation often requires the accommodation of unique local cultures and systems. ICT start-ups are likely to face difficulty in recruiting international managers from established Japanese companies.

Collective bargaining, industry organizations, labour unions, and other systems that represent Japanese industrial relations institutions are less well developed in small and medium-sized enterprises (Sato, 1997). Part-time jobs, contingent work, mid-career recruitment, and recruiting agencies are prevalent in this sector. Stock options and individual performance-based compensation are more widely applied among venture start-ups. However, the formal institutions that protect workers' rights prevent companies from initiating drastic lay-offs or changes of manager. The regulations and culture is tailored to the long-term commitment of workers. While the relative absence of collective bargaining and unions and the increasing use of part-time, contingent workers appear to reduce the burden of start-ups, they remain subject to the stronger protection of workers' rights and the social norms that appreciate long-term security and a seniority system than in liberal market economies. Further, the absence of strong unions indicates that ICT start-ups encounter less pressure to retain jobs within Japan. However, the strong protection potentially limits the degree of freedom in structuring the organization.

Inter-company relations

Active inter-company collaboration has been evident in the Japanese economy for many years. The visible examples of this have been the corporate networks facilitated by the main banks and cross-share holdings, supplier networks with long-term relational contracts, and the powerful cross-industry economic organizations (Imai, Komiya, Dore & Whittaker, 1994: 103-155). These corporate networks and traditional organizations are often out of reach of start-ups. Interlocking shareholding is uncommon even with direct transaction partners or affiliates. Instead, they form several informal and formal entrepreneurs' networks in order to exchange ideas and discuss potential business collaboration. The founding entrepreneurs often keep the majority of the shares.

The supplier's network has been a key for small firms' internationalization; research shows more than 25 percent (of the 697 respondents) stated that their international expansion was initiated because they are requested to do by their large customers (Shoko Research Institute, 2009). Further, the industry organizations and corporate groups also worked as an information hub, facilitating information sharing. In some cases, the lead firms helped with the financing and planning of the subordinate suppliers in the network. However, these relational networks are irrelevant to or out of the reach of the recently established ICT start-ups. The entrepreneurs' network is weak in supporting internationalization because most of the entrepreneurs in this sector are inexperienced with regard to international operations.

The hostile institutional arrangements

As described in the previous section, the newness of the sector and smallness of the operation might isolate Japanese ICT start-ups from the coordinated mechanism that benefits the larger, established Japanese corporations. The resources designed for the specific type of governance instead pose challenges for small firms that would be better supported by other types of economy (see Table 2).

Table 2 Comparison of the implications of Japanese institutional environment for large established firms and start-ups

		Implications for the (domestic) growth of…	
		Large established firms	**Start ups**
Financial	**Main Bank System**	Stable and long-term focused capital	Access only after building track record and legitimacy
	Cross-share holding	Allow firms to focus on long term	Organic growth rather than growth via M&A
Labour	**Strong corporate education and training**	Tailor the human resource and prevent poaching	Increase the costs of hiring due to the need for unlearning
	Long-term employment norm	Encourage the workers to commit longer to a single company	Increase in difficulty of mid-career hire
	Seniority-plus-merit system	Increase the sense of community and collaboration among workers	Conflict to the meritocracy approach of startups
	Job rotation system	Reduce the possibility of sectionalism and internal conflict	Workers often don't fulfill the need of expertise that startups require
	Decision-making process and speed	Consensus decision making	need to make faster top-down decisions
	Collaborative bargaining and labour unions	Protect workers rights and often prevent unnecceary conflicts	Less developed in ICT start-ups, while regulations exist
Inter-compnay relations	**Corporate groups (e.g., Zaibatsu)**	Informal informaton sharing, collaborative action, access to capital	Difficult to access, but can find alternative social capital in some cases
	Suppliers' networks (e.g., keiretsu)	Trust based relationship, effective transfer of knowledge	
	Business and industry associations	Informal information sharing, knowledge sharing	

The fewer entrepreneurial activities in Japan, relative to other liberal market economics (Kelley, Singer & Herrington, 2012), are at least partially explained by the challenges posed by this hostile institutional environment. The Japanese institutional system is well developed, but may not be functioning to help the type of new business creation that is prominent within the ICT sector.

However, there are a number of start-ups that have achieved tangible growth and success in the Japanese ICT sector, despite the challenges of the hostile institutions. The case firms, Rakuten and GREE, are primary examples.

The growth and internationalization

The case of Rakuten

Initial growth

Rakuten was established in 1997 by Hiroshi Mikitani, a Harvard MBA graduate with investment banking experience with a prestigious Japanese bank. He first engaged in a cross-border M&A advisory and alliance consulting business but saw the potential for an Internet business by observing the US examples, so started to develop a shopping mall site where local shops can build an online shop with minimum initial investment. The online shopping mall system requires initial investment and system development knowhow. However, he managed to overcome the initial funding challenge due to the savings, his income from his M&A advisory business, and the contribution of young IT engineers and managers, such as

Shinnosuke Honjo and Masatada Kobayashi, who were attracted by his background and passion. The Japanese institutions did not help Rakuten, but its founder's unique skillset and mindset helped the company to overcome its challenges. The key members were recruited via personal references and connections. They personally financed the business without relying on banks or venture finance.

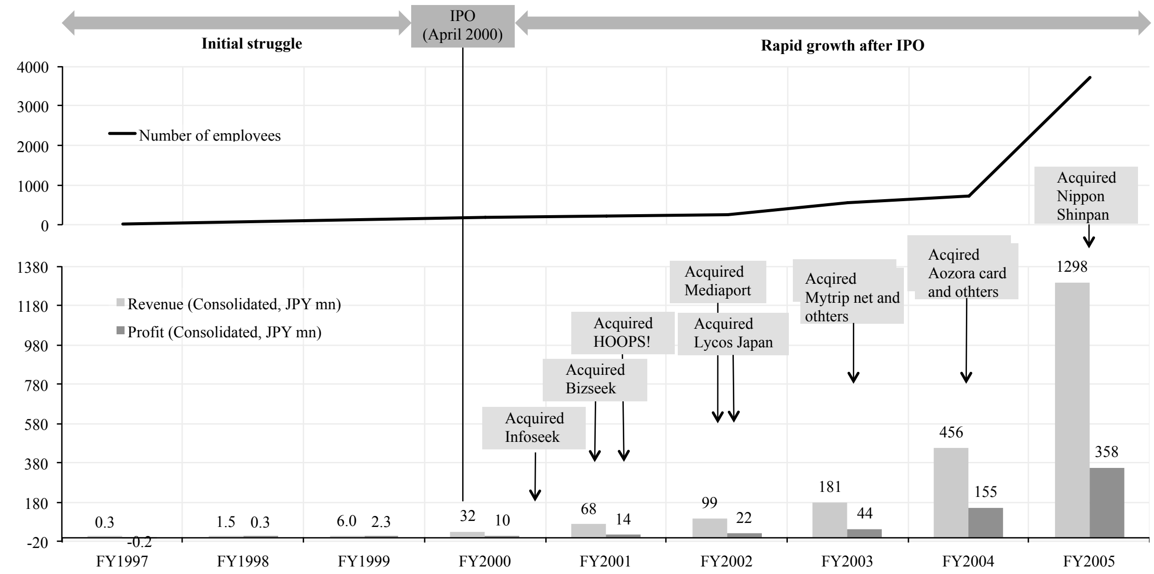
The subsequent growth until IPO was facilitated by the characteristics of the business. Rakuten promoted the shopping mall with its user-friendly online store management features. Rakuten could learn from the preceding examples how to improve the system and adopt open source programming languages to reduce the costs. The business model could generate an abundant cash flow by acquiring new shops because the monthly usage fee is fixed, regardless of the shop's merchandise sales level, while the system required a relatively small incremental investment per new store. Mikitani's decision to ask the shops to pay fees covering the 6 months in advance further improved the cash flow and the shops' commitment. The store management features enabled each shop to show its originality and uniqueness. The direct communication between the shops and the customers was one of the key differentiating factors (Mikitani, 2007: 110-112). In this stage, the key to growth was to reach as many stores as possible. Rakuten was able to do so by recruiting junior managers and training them as sales representatives. This was possible and effective due to the abundant cash flow, relatively simple and attractive service offered, and absence of competitors' sales reps, especially in rural areas. Gradually, the Japanese systems started to help Rakuten. Its rapid expansion and high profitability encouraged the main bank, Sumitomo, to introduce a large number of new customers. The sales forces, recruited from companies with a highly disciplined Japanese working culture, worked intensively and, in some cases, almost "sacrificed their life" to the company's growth. However, Rakuten still did not rely on bank loans, new graduate hire, the supplier relationship, or venture finance at this stage. Rakuten in many ways avoided the influence of the hostile institutional environment.

Growth after IPO

The financial and labour institutions became more relevant to the growth of Rakuten when it went public on JASDAC in April 2000, which was just before the impact of the dot-com bubble bursts has arrived to Japan. Rakuten obtained JPY 49.5 billion from the initial public offerings, and drastically expanded the scope of the business through M&A, even during the recession due to the abundant capital. Rakuten also relied on executive head hunting and mass new-graduate hiring. Rakuten overcame the initial public backlash over the shift from the fixed fees system to a variable fees system, and continued the rapid growth.

Further, Rakuten executed public stock offerings in 2003 and 2004, and financed JYP 46.5 billion and JYP 28.4 billion, respectively. It financed JPY 17.5 billion by bank loans in 2003. In the 10 years after the IPO, Rakuten completed more than 20 acquisitions and investments, including a $425 million acquisition of the LinkShare Corporation and $109 million for Ctrip.com International. The number of employees leapt from 169 to 3709 in five years between the end of 2000 and the end of 2005 (see Figure 2).

Figure 2 Rakuten's growth between FY1997 and FY 2005



Source: Rakuten IR document, Capital IQ

Rakuten fully utilized the benefits of the newly established capital market for venture business. At the same time, the abundant capital and rapid growth pushed the company to initiate active new-graduate and mid-career recruitment.

Mikitani often acknowledges the influence of Masayoshi Son who is educated in the US and is the founder of Softbank that utilized M&A quite effectively in the earlier period. Further, the Rakuten M&A team is directed by skilled M&A experts who often have a postgraduate degree from a prestigious US university, experience with international investment banks, and a personal connection with Mikitani. While Rakuten was a relatively isolated company in the networks of Japanese companies at the firm level, the founders' personal networks would have brought ideas and styles from the LME (Liberal Market Economy) type of governance. The management team, with the performance driven culture, attracted mid-career managers who share "western management culture" from the start-ups acquired by Rakuten, consulting firms, investment banks and foreign-affiliated consumer products companies. Concurrently, Rakuten's core business required sales representatives to recruit, support, and train the online shops. To supplement this need, the managers of the companies who share the CME (Coordinated Market Economy) style of management played a large part. In contrast to the aggressive M&A expansion to diversify the business and supplement the services in the shopping mall, continuous improvement and on-the-ground execution have been other growth drivers of Rakuten. The current list of corporate officers shows the range of different backgrounds (see Table 3).

Table 3 Education and career background of the corporate officers of Rakuten

Foreign Affiriates / US Schools
Venture firms
Underlined are founding members

Name	Position at Rakuten	Previous employment	Highest education
Hiroshi Mikitani	Founder/CEO	The Industrial Bank of Japan, Ltd.	MBA, Harvard Business School
Atsushi Kunishige	Vice President Executive Officer	DLJdirect SFG Securities*2	MBA, Sloan School of Management (MIT)
Akio Sugihara	SEO*1 (System Development)	RCA Co., Ltd.	MSc, Keio University
Hiroki Yasutake	SEO (System Development)	NTT Corporation	MSc, Waseda University
Hisashi Suzuki	SEO (Content and Community Business)	Square CO., Ltd.	B.A., Keio University
Kazunori Takeda	SEO (Business Directorate)	Toyota Motor Corp.	MBA, Harvard Business School
Ken Takayama	SEO (CFO)	The Industrial Bank of Japan, Ltd.	MBA, University of Texas at Austin
Masatada Kobayashi	SEO (E-Commerce)	RCA Co., Ltd.*3	B.A., Keio University
Takao Toshishige	SEO (Content Business)	The Industrial Bank of Japan, Ltd.	MBA, Columbia Business School
Toru Shimada	SEO (Group Marketing)	Intelligence, Ltd*4	B.A., Tokai University

*1 Senior Executive Officer
*2 also worked long years at Sumitomo Securities and Sumitomo Bank (an established Japanese firm)
*3 also worked at Dai Nippon Printing Co., Ltd. (an established Japanese firm)
*4 also worked at Recruit Co., Ltd. (a venture firm)
Source: Rakuten IR Document, Literature review; as of Feb 2012

Source: Rakuten IR documents, Literature review, as of Feb 2012

The human resources accumulated in Rakuten further accelerated the execution of an external growth strategy and called for additional capital. Some former Rakuten employees mention a sort of "glass ceiling" between the highly performance oriented business planning and due-diligence group and the domestic sales and engineering teams, due to the large difference between the sorts of capabilities that are difficult to acquire in the internal promotion path. However, the senior managers agree that Rakuten's corporate culture is rooted in a mixture of Silicon Valley and Wall Street type performance oriented working style and the traditional Japanese family feeling and collaborative working style.

Rakuten recombined the resources surrounding it. After obtaining access to the new stock market, it effectively utilized the benefits of the LME associated financing and labour system. Similarly, the credentials gained from the media attention and stock listing allowed Rakuten to start utilizing the systems of CME. The founder's personal background was magnified by the development of the management team through referrals. Hiring from companies under the influence of traditional systems gave Rakuten the strength of the so-called Japanese working culture. Active new graduate hire and the development of an internal training and education system were derived from the insufficient supply of labour, yet contributed towards building their own culture and style. The resulting corporate structure reflects the mixture of different systems. Rakuten rapidly absorbed the relevant skills, systems, and culture by personnel migration from firms in a variety of institutional frameworks, and successfully expanded its business.

Internationalization

By the end of 2006, Rakuten had become part of the mainline Japanese economy. It became a member of the Japanese Business Federation in 2004, recruited a high ranking executive, Kazunori Takeda from Toyota, had more than 4000 full-time employees, and owned a baseball team, an indication of social acceptance in Japan. It had to answer the market expectation of future growth, so overseas expansion was a natural answer. In 2007, Rakuten announced its future vision to expand into 27 overseas markets and achieve over a 70 percent share of overseas sales. It launched its first overseas operation in Taiwan in 2008, while the Korean and Chinese versions were initiated in 2009. It entered Thailand in 2009, then China, the US, and France in 2010. It also acquired local E-commerce operators in Brazil, Germany, and the UK in 2011.

Rakuten certainly appreciates the strength that it has accumulated in the process of growth. Its overseas expansion is largely through joint venture or acquisition, leveraging the capabilities that have enabled its rapid growth in the domestic market. It dispatches experienced managers to the overseas operations, and introduces a number of Rakuten ways, such as KPI monitoring, morning meetings ("Cho-kai"), a name tag worn on the left-hand side of the chest ("Nafuda"), and the weekly cleaning day. It focuses on the unique shopping mall business model, and minimizes its diversification outside Japan. With the vision of creating the "Rakuten eco-system", the implementation of the domestically cultivated corporate systems is uniform across the regions. The greatest influence was the unique mix of different cultures that Rakuten proactively selected in the process of its growth. The home institutions matter, but how it matters was largely influenced by the way in which Rakuten exploited the surrounding resources.

At the same time, Rakuten tries radically to change the domestic-focused corporate systems in order to counter the disadvantages of the home base, Japan. The most radical plan is to switch the official corporate language from Japanese to English by 2012. Rakuten acknowledges the difficulty of recruiting international talent from the labour market both domestically and internationally, especially due to the language barrier. The corporate management systems designed around Japanese culture and language prohibits collaboration between the home and host countries. The fact that most of the Internet innovation happens in English-speaking countries, especially the US, also contributes towards the decision. Rakuten's answer is to copy the way in which their international peers operate, except for the systems that Rakuten believes are central to its competitive advantages.

To encourage effective migration and integration, Rakuten started to hire new graduates from foreign countries to work at its headquarters. It hired 100 foreign-born new graduates out of the 500 in total for the year 2010-2011, compared with only 17 out of 400 in the previous year. The share increased to 30% (124 of 416) for the year 2011-2012. Rakuten also publically stated its aim to increase the share of non-Japanese board members to a third in a short period of time. Rakuten narrows the gap between the internationally shared working culture and its own, while de-emphasizes that between the target countries and its own. For example, Rakuten decided to ask its employees to; 1) call their co-workers by their first name; 2) abolish the dress code; and 3) translate all names into English.

It decided to expand into 27 major markets first, then shaped a strategy to make this happen. As it relies on M&A or joint venture for its expansion, the selection of the priority locations was often opportunistic because of the availability of willing partners. Due to this reality, this paper argues that the actual overseas expansion destinations and the interactions between the different institutional arrangements do not match. The actual institutional distances seem to be less influential on Rakuten's location decisions. Rakuten does understand the distance between the domestic and foreign markets. However, a senior manager explains that it has a limited incentive to introduce the learning gained from the local markets to other markets because of the strategy of creating a unified "Rakuten eco-system". While the visible influence of the home market institutional setting exists, the actual convergence or interaction between the different institutions seems to be happening independently of the observable internationalization behaviour (i.e., destination, mode of entry, size of entry). An alignment of the systems happens to accommodate the different needs of multiple locations. In fact, the bilateral relationship between the home and the host seems to be less influential on the actual convergence. Instead, the multilateral relationship between Rakuten's own set of systems and cultures and the hosts markets is gradually converging.

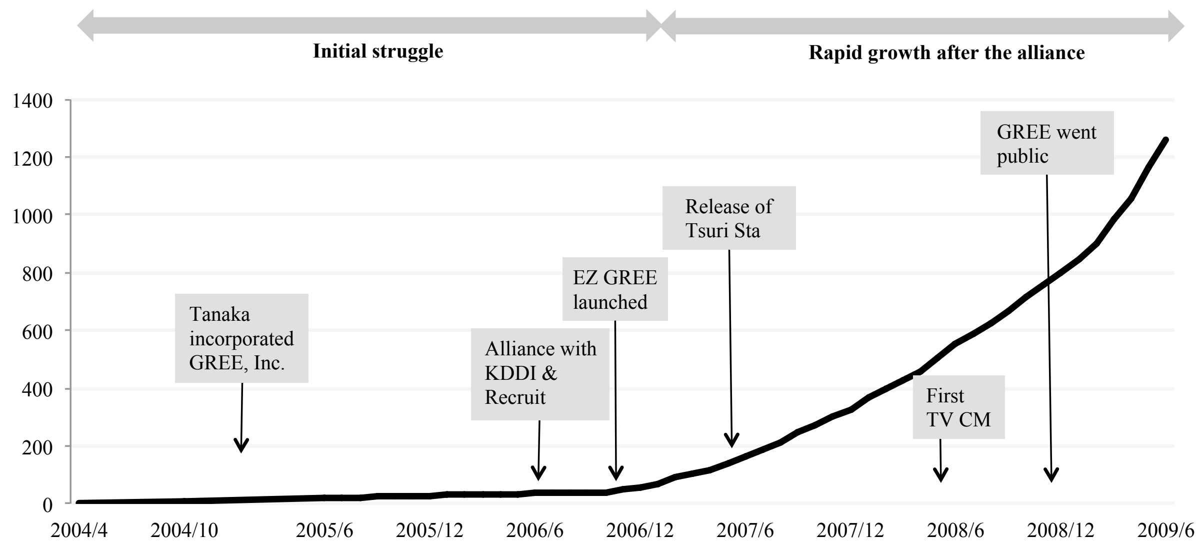
The case of GREE

Initial growth

GREE opened in February 2004 as a private project of the founder, Yoshihiro Tanaka. The service was inspired by US social networking services, such as Friendster. It enabled users to connect with their friends and share photos, and quickly attracted thousands of users. Tanaka incorporated GREE Inc. in December 2004 with his old friend, Kotaro Yamagishi. After struggling to find the initial capital, GREE obtained the required funding from Masashi Kobayashi, a venture capitalist who saw the potential of GREE, and recruited a highly skilled engineer, Masaki Fujimoto, as CTO. During this period, GREE continued to experience moderate growth in terms of the number of registered users; however, mixi, a follower with more resources and an aggressive marketing strategy, soon overtook GREE.

The turnaround was not straightforward. An ex-investment banker, Naoki Aoyagi, joined GREE, and his connections and deal-making knowledge brought two high-profile alliance partners, Recruit and KDDI, in July 2006. The launch of EZ GREE, a mobile version of GREE, has contributed to the rapid growth of the number of users. However, GREE continued to struggle to monetize the re-expanding user base until the first half of 2007. When the blockbuster social game, Tsuri Sta, was released in May 2007, GREE had already spent more than half of the funding (Aoyagi, 2010). In the end, the success of Tsuri Sta generated JPY 500 million within a year, and the strategy of spending JPY 300 million on TV commercials proved both highly effective and cost efficient. The combination of profitable social games and aggressive advertising became a recipe for growth. Tsuri Sta was followed by other blockbuster games and GREE started to show impressive growth. GREE went public a year later, in December 2008 (see the user-base development in Figure 3).

Figure 3 Initial development of the number of GREE users (mn registered users)



Source: GREE official IR documents, Interviews

In this phase, GREE only recruited highly-skilled talent through referrals, which was sufficient because of the stagnant revenue growth. It was possible to hire highly skilled engineers without offering competitive compensation because of the personal networks (e.g., university alumni network) of the founding members and probably the possibility of obtaining stock options. GREE could not utilize bank loans because the business was quickly losing capital. However, the competitive situation that the investors faced, the focus on the potential of social networks, and the capabilities of the management enabled GREE to obtain precious venture finance. While the traditional Japanese systems did not support the initial growth of GREE, the increasing presence of venture finance and managers from the sectors that accommodate the LME working style and culture favourably influenced the growth. The traditional "keiretsu" type of relationship between other companies and GREE had little influence. While Tanaka still maintains around half of the voting rights, the second largest investor, KDDI, had only around 7%. GREE provides its services to KDDI's competitors, and the other investors were purely for investment purposes.

Growth after IPO

Until the second half of 2010, GREE had a large growth potential in the domestic market. The continuous growth was at least partially due to the abundant cash flow and the successful recruitment of skilled engineers and managers. It relied on personal referrals that have been proved to efficient for recruiting highly skilled managers. Concurrently, mid-career recruitment is also active, especially for recruiting engineers under high demand.

In June 2009, six months after the IPO, GREE had 102 full-time employees. At this point, hiring became a more organized, comparatively less important issue for GREE. It only required a limited number of experienced engineers, and could provide competitive compensation and an established brand name as one of the fastest growing companies. The sizable pool of engineers and managers in the Internet related industry was the supply base, although the competition with other social game providers was evident. The personal connections, high profitability, and keen public attention strongly helped GREE to acquire the required resources continuously. The financial market was less important at this stage because the business model generated a much larger cash flow than GREE required, even given its rapid growth.

In GREE, there was a mixture of a performance driven culture and a co-operative, collaborative working style. On the one hand, GREE was characterized by a hard working culture and highly competitive environment, together with a result-driven evaluation scheme. On the other hand, it still had a sense of the Japanese working culture. The relatively strong tie was cultivated by the tough times in the early days and the personal connections among the key members of the company (until the end of 2010, 30-40% had been recruited by referral). However, the rapid growth of the number of employees, from 174 (June 2010) to 934 (Dec 2011), forced GREE to replace the previous family feeling with an internally developed GREE culture that is directed by managers recruited from the best practice companies.

In the process of the development of the internal systems, the influence of the systems of other companies was evident. The head of the CEO office acknowledges that, "GREE has cultivated its unique value and unified corporate culture and sytems, while of course each department has its own styles that are highly likely to reflect the background of the department head". The systems were brought into the company indirectly at the individual level, especially by the high profile managers who master the ways in which the best practice companies operate (see Table 4). These managers implicitly or explicitly preferred job applicants who were most likely to share the common value and style. They utilized their personal references to recruit talent. They developed a team and implemented the best practices in each function of GREE. Concurrently, the teams in the different departments actively collaborated, interacted, and exchanged ideas within the firm. As a result, while each functional team retains the uniqueness that was probably originated by the key managers, the active interactions in the firm are gradually mixing and recombining a variety of different systems and cultures.

Table 4 Education and career background of the corporate officers and SVPs of GREE

Foreign Affiliates / US Schools
Venture firms
Underlined are founding members

Name	Position at GREE	Previous employment	Highest education
Yoshikazu Tanaka	Founder/CEO	Rakuten*	B.A., Nihon University
Kotaro Yamagishi	Director/Corporate officer (EVP)	C-NET Japan*2	B.A., Keio University
Masaki Fujimoto	Director/Corporate officer (CTO)	TUNEBiZ Co., Ltd.	B.A., Sophia University
Naoki Aoyagi	Director/Corporate officer (CFO/International)	Deutsche Bank	B.A., Keio University
Kazushige Kobayashi	Corporate officer (Media Development)	Yahoo! Japan	MSc., JAIST
Sanku Shino	Corporate officer (Marketing)	Hakuho-do	MSc., Keio University
Shintaro Aikawa	Corporate officer (Business Promotion)	Rakuten*3	B.A., Waseda University
Yusuke Amano	Corporate officer (Business Development)	Unitas Capital Pte., Ltd*4	B.A., Sophia University
Taisei Yoshida	Corporate officer (Social Application)	Yahoo! Japan	MSc., NITech
Ryotaro Shima	SVP (Corporate)	The Carlyle Group*5	MBA, Stanford Graduate School of Business
Kazunori Nakanishi	SVP (Human Resource)	P&G	B.A., Kyoto University
Tatsuhei Asanuma	SVP (Advertising)	Rakuten	B.A., Sophia University

*1 also worked at Sony Corp. (So-net Entertainment Corp)
*2 also worked at Nikkei BP
*3 also worked at Accenture
*4 also worked at Lehman Brothers and Deutsche Bank
*5 also worked at Merrill Lynch & Co., Inc.
Source: GREE IR Document, Literature review; as of Feb 2012

Source: GREE IR documents, Literature review, as of February 2012

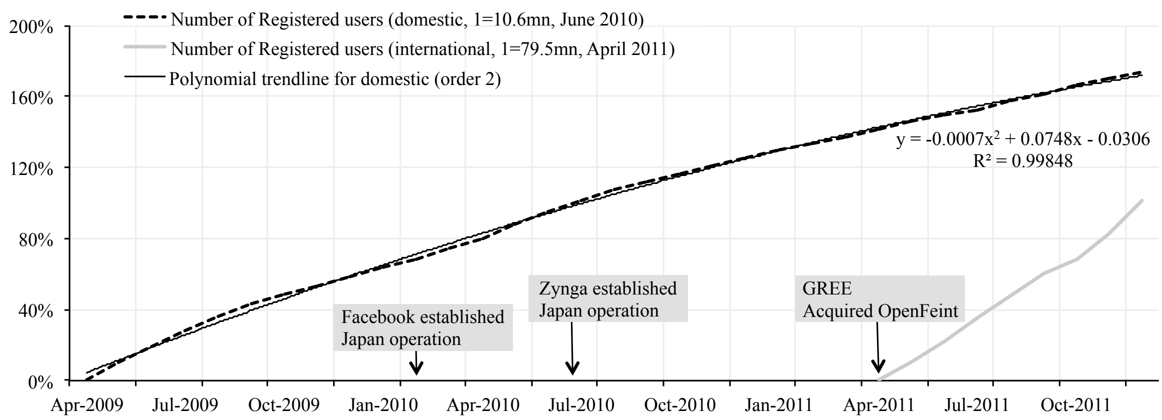
At the same time, active inter-firm interactions are also visible within the game sector. Due to the competition with DeNA, GREE had to capture suppliers, at least to some extent. Both DeNA and GREE considered the game developers as precious resources, and competed for choice. As a result, the relationship between the suppliers and the platform became more relation-based than transaction-based. GREE regularly communicated with the representative developers and, in some cases, initiated joint product development projects. The rapid growth of the market required the players quickly to introduce as many games as possible to maintain their position. GREE, DeNA, and other game venders inspired each other regarding game ideas and systems. It was common practice to introduce a localized version of popular games from the overseas markets. While there are limited interactions with other Japanese sectorial institutions, clear bidirectional influences are visible within the globally connected gaming sector.

GREE was an active actor, exploiting the available resources from different sets of institutions. Inside, the "immigrant" managers played a pivotal role in deciding how GREE operates. The managers recruited from the firms in other institutional frameworks implemented their learning from their previous career and education in the rapidly growing firm. Further, the active inter-firm interactions facilitated the co-development of the industry and encouraged knowledge sharing in a variety of ways. GREE recombined the different cultures and systems within it, and some of them might be re-transferred to other firms within the same inter-company network.

Internationalization

By the beginning of 2010, the high expectations of the market were sending out a tough message: how long will this growth continue? GREE hesitated to disclose their plan for expansion outside Japan, which lead to the stock price decreasing by 10-20% in the four months from mid-2010. While the user base was still growing rapidly, the management of GREE foresaw the future stagnation and was seriously considering how GREE could secure continued growth (see Figure 4). The shift from feature phones to smart phones indicated that the traditionally isolated Japanese market might face global competition. Facebook and Zynga established their Japanese operations in February 2010 and July 2010 respectively. Social games started to cross the borders. The global expansion of DeNA almost certainly influenced GREE.

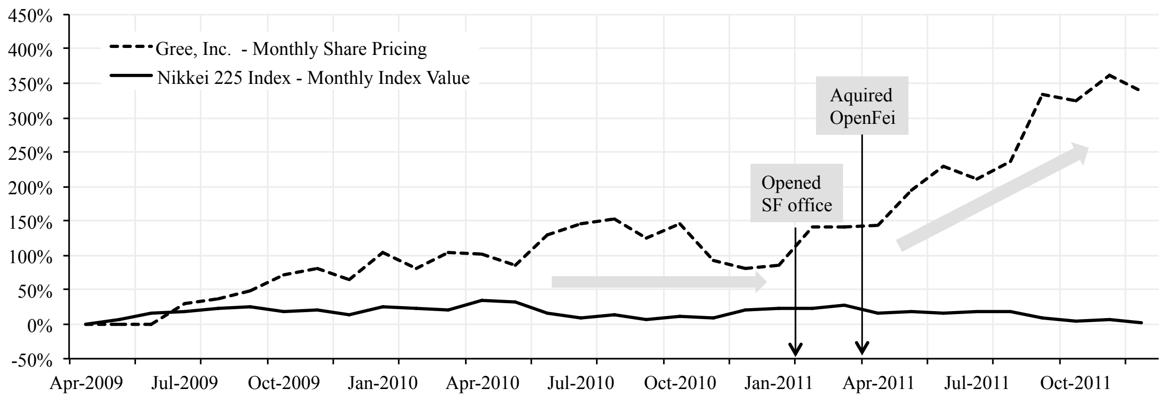
Figure 4 Percentage change in the number of GREE registered users



Source: GREE official IR documents

In November 2010, GREE announced the first international alliance with Project Goth. The company operates a mobile social networking service, which has over 47 million registered users in Southeast Asia, India, and South Africa (GREE, 2010). In January 2011, GREE announced another alliance with Tencent, the largest Internet service operator in China (GREE, 2011b), and established the first overseas branch in San Francisco (GREE, 2011a). Further, in April 2011, OpenFeint, one of the largest social game platforms, was acquired by GREE (GREE, 2011c). After this acquisition, GREE had entered into more than four international alliances and established 7 overseas subsidiaries within 10 months by the end of February 2012. The stock market responded to this drastic shift favourably (see Figure 5).

Figure 5 Percentage change of GREE Monthly Share Pricing (1=JPY 538, June 2009)



Source: Capital IQ

A senior manager from the human resources department and a SVP at GREE International agree that the establishment of the first office in San Francisco and OpenFeint, the only major foreign acquisition, significantly influenced the following expansion. The issues discussed in the first foreign operation are distributed to the senior managers via the weekly report that combines the status reports from each department. New systems and guidelines that satisfy the requirements of the foreign locations were jointly developed by the US operations and the respective departments in Japan, and were extensively referred to by the offices established in the following period.

Because of the scarcity of alliance or M&A opportunities and the importance of speed, GREE adopted multiple strategies concurrently to achieve their specific goals, such as to secure game developer resources. The head of the international alliance explained that, if a certain location and boundary setting meets the minimum criteria, multiple configurations can exist together because GREE aims to cover global locations as early as possible. While GREE's strategic moves are fundamentally based on the rational calculation of the potential, costs, feasibility and risks, the resulting final decisions have been influenced, often significantly, by rather unexpected matching, derived from situation specific factors such as the availability of potential partners and willing, skilled managers, and the move of the influential players.

GREE appreciates the local systems and culture. However, it believes in the way in which they captured success in Japan (Tanaka, 2011) and a SVP of GREE International states that the local staff appreciates the way in which GREE operates. GREE implemented the knowhow developed in Japan, such as KPI monitoring, the monetizing technique, the game balance design, etc. The Japanese ways of cultivating informal internal networks, such as "Nomi-kai" (drinking parties), look new to the local staff but seem to be effective in developing the team. Active personnel exchanges between the foreign offices and the headquarters and the increasing size of the foreign-born graduate hire are other sources of integration. As GREE established 7 overseas operations within a year with a minimum number of staff, all of the regions share the status regularly and often collectively resolve issues. Due to the relatively small knowledge, capabilities, and experience accumulated at the headquarters, the information sharing is less unidirectional than bidirectional. While US operation maintains relatively independent operation due to tis size and strategic importance, key managers in the regional offices collaboratively develop the cultures and systems with the headquarters. In this regard, GREE's approach is more multilateral than bilateral in nature. The influence of the home institutions is minor, because GREE's business is not tightly embedded in the Japanese institutions and the control of the headquarters has been relaxed, expect for the budget target.

GREE took into account the institutional distance and other social factors when selecting the locations and boundary configurations. However, its strong vision to become a global company resulted in the simultaneous expansion into multiple locations, and the final outcome was largely influenced by uncertain factors. The largest, first operation in San Francisco seems to have been influential on the following expansion; however, the increasing number of foreign operations gradually overtook the role to build the international culture. In a similar way to Rakuten, the actual overseas expansion destinations and the interactions between the different institutional arrangements do not match. An alignment of the systems happens to accommodate the different needs of multiple locations. The bilateral relationship between the home and the host country seems to be less influential for the actual convergence. The multilateral relationship between the home and the host markets is gradually transforming the cultures and systems. The influence of the home institutions was relatively minor.

Discussions and Conclusion

This paper analysed how the Japanese institutions, arguably a hostile arrangement for the LME type of venture business incubation, might have influenced the two highest valued venture start-ups of the past two decades: Rakuten and GREE. The firm-level analysis focused on how the changing financial, labour, and inter-company institutional environment influenced the start-ups' strategy to overcome the initial funding challenges and initiate their internationalization. As a result, this paper can list several key findings of this study:

Firstly, the comparison of Rakuten and GREE illustrates the development of the transformations in the Japanese institutional environment for start-ups. Rakuten opened in May 1997 and GREE in February 2004. Both companies suffered from a lack of initial funding, and overcame the challenge largely due to their business model, special skills, and connections. However, once they overcame the initial gap and found their position in the sector, the newly developed capital markets could provide the required funding for them. The same situation occurred in the labour market. The exceptional cases relied on their personal networks in the early days; however, they were gradually able to leverage the mid-career markets after they became well known in society. Although developed institutions do exist, they have been out of the reach of the entrepreneurs. Japanese entrepreneurs have faced the absence of intermediaries, which is often described as institutional voids in emerging economies (Khanna & Palepu, 2010). Their strategies for overcoming the challenge are, in many respects, similar to the ways in which the firms from emerging markets are responding to the institutional voids. The rapidly growing firms will be those that can proactively exploit the available resources and avoid the hostile institutional environment.

However, this research also confirms that signs of change are emerging. The increasing number of experienced venture capitalists, managers who are capable of growing venture businesses, and executives of established corporations who appreciate the value of start-ups promotes venture firms more successfully than in the past. In contrast to SoftBank, that relied on relational financing and established new stock exchanges in collaboration with Nasdaq US (Sako, 2003: 316-323), the small but growing number of US style venture capital and the increasing awareness of the significance of venture business among the traditional Japanese corporations, in fact, helped GREE. Although the speed of change appears to be slow, one can argue that the changing Japanese new business incubation system certainly exists. The Japanese institutional environment remains hostile towards entrepreneurs, while gradually a layered environment rooted in LME that incubates venture business creation seems to be developed. This is in line with the improving Japanese entrepreneurial activities since 2004 (Bosma, Wennekers & Amoros, 2012: 139). Through the analysis of Rakuten and GREE, which were established at different points of time, this study empirically demonstrates the gradually changing interactions between the Japanese institutions and start-ups.

Secondly, the findings suggest that personnel migration is significant in causing institutional interactions, especially within the newly emerging sectors and firms. Start-ups hire managers who are influenced by a variety of existing institutions at the international, national, and sectorial levels, and the managers interact with each other and build their own mix of social systems within the firm. The influence of pioneering firms might be significant not only due to the demonstration effects, political influences, and inter-company relationships, but also the transfer of knowledge, capabilities, and norms via human resource migration.

Saxenian (1994) mentions the important role played by immigrants in innovation in Silicon Valley; however, she does not point to institutional interactions because of the presence of workers who migrated from different institutional frameworks. In the two cases, the role of managers who had migrated from other firms is similar to that of overseas Chinese and Indians in development back home (Khanna, 2007: 295-312). A large share of executives were educated under the US systems or worked for foreign affiliated companies or venture companies that operate an LME type of working culture. Rakuten's strategy and structure inherits the culture and styles of the Industrial Bank of Japan and other companies from which the key managers are recruited. GREE was also influenced by Rakuten, Yahoo! Japan, Deutsche Bank, and other foreign affiliated companies and start-ups, from which the key managers migrated. An earlier example, SoftBank, has also relied on the managers from respective firms such as Nomura securities. As the high labour liquidity contributes knowledge sharing in Silicon Valley (Hyde, 1998; Gilson, 1999), the managers bring their capabilities and knowledge. In the process of rapid growth, start-ups recruit managers from other companies who share their vision to a certain extent, yet also inherit unique styles and systems rooted in the different institutional frameworks. These managers bring the knowledge, capabilities and norms to the new workplace, and shape the way in which the firm operates by collaborating with the other managers regarding other ways of doing business. As a result, the entrepreneurial firms become capable of designing unique systems and capturing the opportunity for institutional arbitrage at different levels, both national and international. Pioneering entrepreneurs of rapidly growing business in a hostile institutional environment are those who can recombine the technology and methodology from different institutional layers in a unique but effective manner. Personnel migration would be a key to understanding how the institutional entrepreneurs invent a new system that best suits the surrounding institutional environment.

This finding suggests the potential value of analyzing a deeper level of granularity, especially when the literature analyzes newly emerging firms or sectors that rapidly absorb a large number of workers from the surrounding firms and sectors. The migrations may be mutations that might transform a type of governance model to a stable equilibrium, as analysed by Kandori et al (1993) and Young (1993). This inter-company movement of labour might be another source of institutional isomorphism in the same organizational field (DiMaggio & Powell, 1983). The migration of key personnel is likely to be key to understanding the process in which the hybrid type of governance emerges in unstable environments. Organizational diversity may increase because a variety of institutional arrangements will be combined due to the combination of personnel from a variety of firms; the managers recombine and tailor the institutional arrangement that each represents to the specific situation they face in the newly emerged firms.

Finally, the way in which the institutional environment matters to the rapidly internationalizing firms might differ from our traditional understanding of this phenomenon (Dunning & Lundan, 2008: 123-144). The process whereby the home and host country institutions have influenced Rakuten and GREE was not typical of those found to have engaged in a more gradual expansion, probably because the two firms adopted the Born Global (McKinsey & Co, 1993; Cavusgil & Knight, 2009) or Born-again Global (Bell, McNaughton & Young, 2001; Bell, McNaughton, Young & Crick, 2003) approach to internationalization (i.e., targeting multiple international markets concurrently). The bilateral institutional differences between the home and the hosts are unlikely to be the most influential factor on their internationalization behaviour, such as their location choice, subsidiary governance, resource allocations and investment priority choice. The interaction seems to be independent of the actual internationalization path. The two cases took into account the costs, capabilities, and institutional factors; however, the actual expansion path was largely influenced by the corporate vision, strategy and several uncertain factors, such as the availability of willing partners and managers.

Instead, multilateral collaborations and frameworks might develop the systems and culture in rapidly internationalizing firms. The institutional interaction happens, but between the international institutions and the mixture of systems that the firm developed in the process of growth. The home and hosts interact, but the resulting systems and culture in the firm are those that can be shared among the members in a variety of institutional framework and are believed to be beneficial to the competitive advantages of the firm. Djelic and Quack (2003) argue that internationalization and globalization are considered “a double process of institutional change and institutional building”. Their vision for building a global firm decides the geographic configuration. Both firms make extra efforts to develop their own style, which is the result of the mixture of workers from a variety of different sectorial or national institutions. The rapidly internationalizing firms seem to design their global coverage first (e.g., deciding to operate in 27 countries), then implement the corporate systems and culture that they believe to be the sources of competitive advantage, and finally extract learning and new insights from the acquired or invested locations concurrently in multiple destinations.

The resulting corporate culture and system are gradually becoming Rakuten or GREE specific, and are not typical of the norm in large Japanese firms. One of the implications of this is that the home market institutions matters but probably only partially, especially if the firm is young and rapidly expanding into the overseas markets. Firms may not only be subject to the institutional differences between the home and target markets, but also be the exploiters of the best combinations of the available institutional arrangements. Firms can design the ideal global configuration first, and then apply the plans individually in the local host markets. Multilateral interactions between the home and the hosts shape the corporate cultures and systems within the rapidly internationalizing firms. The home institutions matter, but how that matters is largely influenced by the way in which entrepreneurial firms exploit the surrounding resources.

This study suffers from the following limitations. Firstly, the generalizability has to be validated with a larger number of pioneering and rapidly expanding start-ups in a variety of sectors and in different countries. Secondly, the literature related to personnel migration will help understanding the theoretical foundation of the influences observed by this study. Finally, the process in which the rapidly internationalizing firms develop their own culture has to be analysed in detail, in order to understand exactly how “institutions matter” to their internationalization behaviour.

In conclusion, the findings of this paper suggest the high value of firm-level analysis, especially in a situation where a new sector emerges and firms grow rapidly by recruiting talent from various organisations that might belong to different institutional arrangements. Further, the results also suggest that the assessment of the impact of institutions on a firm’s growth and internationalization can provide additional insights. This paper argues that the Japanese institutional environment is in transition, and is gradually incorporating the systems of LME that benefit venture business incubation. The key managers in the rapidly growing firms in a new sector are likely to be a source of institutional interaction. Rapidly internationalizing firms can design their global operations first, and then configure the cultures and systems by interacting with multiple locations concurrently.

References

Aldrich, H., 1979. *Organizations and Environments.* Englewood Cliffs, N.J.:Prentice-Hall.

Aldrich, H.E. & E., H. 1994. Fools Rush in - the Institutional Context of Industry Creation. *The Academy of Management review,* 19(4), p.p. 645-670.

Aoki, M., 1988. *Information, Incentives, and Bargaining in the Japanese Economy.* Cambridge:Cambridge University Press.

Aoki, M. & Dinc, S., 1997. *Relational Financing as an Institution and Its Viability under Competition*.

Aoki, M. & Dore, R., 1994. *The Japanese Firm: Sources of Competitive Strength.* Oxford:Oxford University Press.

Aoki, M. & Okuno, M. (eds.), 1996 *Comparative Institutional Analysis: A New Approach to Economic Systems,* Tokyo: University of Tokyo Press.

Aoyagi, N., 2010. To Be a Big Venture Company - Cfo Talk. In D. Iwase (Ed.), *Infinity Ventures Summit 2010 Fall Kyoto*, Kyoto:Infinity Venture Partners.

Bell, J., Mcnaughton, R. & Young, S. 2001. 'Born-Again Global' Firms: An Extension to the 'Born Global' Phenomenon. *Journal of International Management,* 7(3), p.p. 173-189.

Bell, J., Mcnaughton, R., Young, S. & Crick, D. 2003. Towards an Integrative Model of Small Firm Internationalisation. *Journal of International Entrepreneurship,* 1(4), p.p. 339-362.

Block, F.F. & Fred, F. 2003. Karl Polanyi and the Writing of "the Great Transformation". *Theory and society,* 32(3), p.p. 275-306.

Bosma, N., Wennekers, S. & Amoros, J.E., 2012. *Gem 2011 Global Report - Extended.* London: G.E.R. Association.

Brito, L.A. & Vasconcelos, F.C., 2006. How Much Does Country Matter? In A. Cooper, S. Alvarez, A. Carrera, L. Mesquita & R. Vassolo (Eds.), *Entrepreneurial Strategies: New Technologies and Emerging Markets.* first ed. Oxford:Blackwell, p.p. 95-113.

Brouthers, K.D. & Bamossy, G.J. 1997. The Role of Key Stakeholders in International Joint Venture Negotiations: Case Studies from Eastern Europe. *Journal of International Business Studies,* 28(2), p.p. 285-308.

Cavusgil, S.T. & Knight, G., 2009. *Born Global Firms: A New International Enterprise.*Business Expert Press.

Chan, C.M., Isobe, T. & Makino, S. 2008. Which Country Matters? Institutional Development and Foreign Affiliate Performance. *Strategic Management Journal,* 29(11), p.p. 1179-1205.

Christmann, P., Day, D. & Yip, G.S. 1999. The Relative Influence of Country Conditions, Industry Structure, and Business Strategy on Multinational Corporation Subsidiary Performance. *Journal of International Management,* 5(4), p.p. 241-265.

Crouch, C., 2005. *Capitalist Diversity and Change: Recombinant Governance and Institutional Entrepreneurs.* Oxford:Oxford University Press.

Delios, A. & Henisz, W.J. 2003. Political Hazards, Experience, and Sequential Entry Strategies: The International Expansion of Japanese Firms, 1980–1998. *Strategic Management Journal,* 24(11), p.p. 1153-1164.

Dimaggio, P.J., 1988. Interest and Agency in Institutional Theory. In L. Zucker (Ed.), *Institutional Patterns and Culture.* Cambridge:Ballinger Publishing Company, p.p. 3-22.

Dimaggio, P.J. & Powell, W.W. 1983. The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organizational Fields. *American sociological review,* 48(2), p.p. 147-160.

Djankov, S., Glaeser, E., La Porta, R., Lopez-De-Silanes, F. & Shleifer, A. 2003. The New Comparative Economics. *Journal of Comparative Economics,* 31(4), p.p. 595-619.

Djelic, M.-L. & Quack, S., 2003. Conclusion: Globalization as Double Process of Institutional Change and Institutional Building. In M.-L. Djelic & S. Quack (Eds.), *Globalization and Institutions Redefining the Rules of the Economic Game.* Cheltenham, UK:Edward Elgar Publishing Limited, p.p. 302.

Dore, R., 2000. *Stock Market Capitalism, Welfare Capitalism: Japan, Germany, and the Anglo-Saxon.* Oxford:Oxford University Press.

Dunning, J.H. & Lundan, S.M., 2008. *Multinational Enterprises and the Global Economy.* 2nd Revised ed. Cheltenham, UK; Northampton, MA:Edward Elgar.

Eisenhardt, K.M. 1989. Building Theories from Case Study Research. *Academy of Management Review,* 14(4), p.p. 532-550.

Eisenhardt, K.M. & Graebner, M.E. 2007. Theory Building from Cases: Opportunities and Challenges. *Academy of Management Journal,* 50(1), p.p. 25-32.

Flisgstein, N., 1990. *The Transformation of Corporate Control.* Boston:Harvard University Press.

Freeman, J.J. & John, J. 1983. The Liability of Newness: Age Dependence in Organizational Death Rates. *American sociological review,* 48(5), p.p. 692-710.

Garud, R., Hardy, C. & Maguire, S. 2007. Institutional Entrepreneurship as Embedded Agency: An Introduction to the Special Issue. *Organization Studies,* 28(7), p.p. 957-969.

Ghemawat, P. 2003. Semiglobalization and International Business Strategy. *Journal of International Business Studies,* 34(2), p.p. 138-152.

Gilson, R.J. 1999. The Legal Infrastructure of High Technology Industrial Districts: Silicon Valley, Route 128, and Convenants Not to Compete. *New York University law review.,* 74(3), p.p. 575.

Glaser, B.G. & Strauss, A.L., 2006. *The Discovery of Grounded Theory: Strategies for Qualitative Research.* New Brunswick:Aldine Transaction.

Goldszmidt, R.G.B., Brito, L.a.L. & De Vasconcelos, F.V.C. 2011. Country Effect on Firm Performance: A Multilevel Approach. *Journal of Business Research,* 64(3), p.p. 273-279.

Granovetter, M. 1985. Economic Action and Social Structure: The Problem of Embeddedness. *The American Journal of Sociology,* 91(3), p.p. 481-510.

GREE, 2010. *Project Goth Allocated New Shares to GREE.* Burlingame: GREE.

GREE, 2011a. *The Establishment of a Subsidiary in the U.S.* Burlingame: GREE.

GREE, 2011b. *GREE and Tencent to Support the Entry of Development Partners into Japanese and Chinese Markets through Standardized Specifications.* Burlingame: GREE.

GREE, I., 2011c. *Gree's Global Strategy and Openfeint Acquisition.* Tokyo: GREE.

Greif, A. 1993. Contract Enforceability and Economic Institutions in Early Trade: The Maghribi Traders' Coalition. *The American Economic Review,* 83(3), p.p. 525-548.

Hall, P.A. & Soskice, D., 2001. *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage.* Oxford:Oxford University Press.

Hall, P.A. & Soskice, D., 2009. An Introduction to Varieties of Capitalism. In B. Hancke (Ed.), *Debating Varieties of Capitalism : A Reader.* Oxford; New York:Oxford University Press, p.p. 21-74.

Hata, N., Ando, H. & Ishii, Y., 2007. Venture Capital and Its Governance: The Emergence of Equuity Financing Conduits in Japan. In M. Aoki, G. Jackson & H. Miyajima (Eds.), *Corporate Governance in Japan.* Oxford:Oxford University Press.

Hawawini, G., Subramanian, V. & Verdin, P. 2004. The Home Country in the Age of Globalization: How Much Does It Matter for Firm Performance? *Journal of World Business,* 39(2), p.p. 121-135.

Herrmann, A.M. 2010. Against the Schumpeterian Mainstream: A Review of Institutional Approaches to Entrepreneurship. *Socio-Economic Review,* 8(4), p.p. 735-746.

Hitt, M.A., Dacin, M.T., Tyler, B.B. & Park, D. 1997. Understanding the Differences in Korean and U.S. Executives' Strategic Orientations. *Strategic Management Journal,* 18(2), p.p. 159-167.

Hyde, A. 1998. Silicon Valley's High-Velocity Labor Market. *Journal of Applied Corporate Finance,* 11(2), p.p. 28-37.

Imai, K., Komiya, R., Dore, R.P. & Whittaker, D.H., 1994. *Business Enterprise in Japan: Views of Leading Japanese Economists.* Cambridge, Mass.:MIT Press.

Ito, H., 2002. *The Japanese Firm in Transition.* Tokyo:Tokyo Keizai.

Jackson, G. & Deeg, R. 2008. Comparing Capitalisms: Understanding Institutional Diversity and Its Implications for International Business. *Journal of International Business Studies,* 39(4), p.p. 540-561.

Johanson, J. & Vahlne, J.-E. 2009. The Uppsala Internationalization Process Model Revisited: From Liability of Foreignness to Liability of Outsidership. *Journal of International Business Studies,* 40(9), p.p. 1411-1431.

Kandori, M., Mailath, G. & Rob, R. 1993. Learning, Mutation, and Long Run Equilibria in Games. *Econometrica,* 61, p.p. 29-56.

Kawakami, S., Sano, T. & Kato, T., 2010. *GREE Kabushiki Gaisha (a).* Tokyo: Globis Graduate School of Management.

Kawamura, K., 2002. Kabunushi Ni Yoru Governance Ha Hitsuyouka? In H. Ito (Ed.), *The Japanese Firm in Transition.* Tokyo:Toyo Keizai.

Kelley, D.J., Singer, S. & Herrington, M., 2012. *Gem 2011 Global Report.* London: G.E.R. Association.

Khanna, T., 2007. *Billions of Entrepreneurs: How China and India Are Reshaping Their Futures-and Yours.* Boston, Mass.:Harvard Business School Press.

Khanna, T. & Palepu, K.G., 2010. *Winning in Emerging Markets: A Road Map for Strategy and Execution.* Boston, Mass.:Harvard Business Press.

Kodama, H., 2005. *Kyoso Kourin Rakuten Mikitani Hiroshi No Shinjitsu.* Tokyo:Nikkei BP.

Kotosaka, M., 2011. Modelling the Speed of Internationalization: Examining the Different Modes of Internationalization According to Their Timing and Speed. *Available at SSRN: http://ssrn.com/abstract=1969313.*

Lehrer, M. 2000. The Organizational Choice between Evolutionary and Revolutionary Capability Regimes: Theory and Evidence from European Air Transport. *Industrial and Corporate Change,* 9(3), p.p. 489-520.

Makino, S., Isobe, T. & Chan, C.M. 2004. Does Country Matter? *Strategic Management Journal,* 25(10), p.p. 1027-1043.

Mantzavinos, C., 2001. *Individuals, Institutions, and Markets.* Cambridge, UK; New York:Cambridge University Press.

Matsumura, M. & Okuno, M. (eds.), 2002 *Heisei Bubble No Kenkyu (Ge) Houkai Hen - Houkai Go No Fukyo to Furyo Saiken,* Tokyo: Tokyo Keizai Shinpo sha.

Mcclelland, D.C., 1961. *The Achieving Society.* Princeton, N.J.:Van Nostrand.

Mckinsey & Co, 1993. *Emerging Exporters. Australia's High Value-Added Manufacturing Exporters.* Melbourn.

Meyer, J. & Rowan, B. 1977. Institutionalized Organizations: Formal Structure as Myth and Ceremony. *American Journal of Sociology,* 83, p.p. 342.

Mikitani, H., 2007. *Principles for Success.* Tokyo:Gentosha.

Miles, M.B. & Huberman, A.M., 1994. *Qualitative Data Analysis: An Expanded Sourcebook.* Thousand Oaks:Sage Publications.

Milhaupt, C.J. 1997. The Market for Innovation in the United States and Japan: Venture Capital and the Comparative Corporate Governance Debate. *Northwestern University Law Review,* 91(3).

Mincer, J. & Higuchi, Y. 1988. Wage Structures and Labor Turnover in the United States and Japan. *Journal of the Japanese and International Economies,* 2(2), p.p. 97-133.

Nitstep, 1999. *Nihon No Venture Kigyo to Kigyosya Ni Kansuru Chosa Kenkyu.* Tokyo.

North, D.C., 1990. *Institutions, Institutional Change, and Economic Performance.* Cambridge; New York:Cambridge University Press.

Okumura, H., 1997. *Houjin Shihonshugi No Unmei.* Tokyo:Tokyo Keizai.

Oliver, C. 1997. Sustainable Competitive Advantage: Combining Institutional and Resource-Based Views. *Strategic Management Journal,* 18(9), p.p. 697-713.

Peng, M.W., Wang, D.Y.L. & Jiang, Y. 2008. An Institution-Based View of International Business Strategy: A Focus on Emerging Economies. *Journal of International Business Studies,* 39(5), p.p. 920-936.

Polanyi, K., 1944. *The Great Transformation : The Political and Economic Origins of Our Time.* Boston:Beacon Press.

Powell, W.W. & Dimaggio, P., 1991. *The New Institutionalism in Organizational Analysis.* Chicago:University of Chicago Press.

Ring, P.S., Bigley, G.A., D'aunno, T. & Khanna, T. 2005. Introduction to Special Topic Forum: Perspectives on How Goverments Matter. *The Academy of Management review,* 30(2), p.p. 308-320.

Sako, M., 2003. Between Bit Valley and Silicon Valley: Hybrid Forms of Business Governance in the Japanese Internet Economy. In B.M. Kogut (Ed.), *The Global Internet Economy.* Cambridge, Mass.:MIT Press.

Sako, M. 2005. Does Embeddedness Imply Limits to within-Country Diversity? *British Journal of Industrial Relations,* 43(4), p.p. 585-592.

Sako, M., 2007. Organizational Diversity and Institutional Change: From Financial and Labor Markets in Japan. In M Aoki, G Jackson & H. Miyajima (Eds.), *Corporate Governance in Japan: Institutional Change and Organizational Diversity.* Oxford:Oxford University Press.

Sako, M. & Kotosaka, M., 2011. Institutional Change and Organizational Diversity in Japan. In C. Lane & G.W. Routledge (Eds.), *Capitalist Diversity and Diversity within Capitalism.* London:Routledge.

Sako, M. & Kotosaka, M., 2012. Continuity and Change in the Japanese Economy: Evidence of Institutional Interactions in Financial and Labor Markets. In A. Walter & X. Zhang (Eds.), *East Asian Capitalism: Diversity, Continuity, and Change.* Oxford:Oxford University Press.

Sato, H., 1997. Labour-Management Relations in Small and Medium-Sized Enterprises Collective Voice Mechanisms for Workers in Non-Unionised Companies. In M. Sako & H. Sato (Eds.), *Japanese Labour and Management in Transition : Diversity, Flexibility and Participation.* New York, N.Y.:Routledge, p.p. 315-331.

Saxenian, A., 1994. *Regional Advantage: Culture and Competition in Silicon Valley and Route 128.* Cambridge, Mass.:Harvard University Press.

Scott, W.R., 2008. *Institutions and Organizations: Ideas and Interests.* London:SAGE.

Shoko Research Institute, 2009. *Kokusai Bungyo Taisei Ka No Higashi-Asia Keizai Ni Okeru Chushokigyo Tenkai No Genjyo to Kadai.* Tokyo.

Sme Agency, 2008. *2008 White Paper on Small and Medium Enterprises in Japan.* Tokyo: Japan Small Business Research Institute.

Sme Agency, various years. *White Paper on Small and Medium Enterprises in Japan.* Tokyo: Japan Small Business Research Institute.

Streeck, W. & Thelen, K. (eds.), 2005 *Beyond Continuity: Institutional Change in Advanced Political Economies,* Oxford: Oxford University Press.

Tanaka, Y., 2011. Sekai No Kokoro Wo Tsukamu Smart Phone Jidai No Game to Wa. In K. Shin (Ed.), *CEDEC2011*, Pacifico Yokohama, Japan:Computer Entertainment Supplier's Association.

Tony, W.T., Todd, M.A., Jeffrey, J.R. & Asda, C. 2008. How Much Does Country Matter? An Analysis of Firms' Growth Options. *Journal of International Business Studies,* 39(3), p.p. 387-405.

Weber, M., 1935. *The Protestant Ethic and the Spirit of Capitalism.* London:Unwin Hyman.

WERU (ed.), 2000 *Venture Kigyo No Keiei to Shien (Management of Venture Start-up and Entrepreneurship Policy),* Tokyo: Nihon Keizai Shinbun.

Yamaguchi, A., 2004. *The Study of Rakuten.* Tokyo:Minichi Shinbun sha.

Yin, R.K., 2006. *Case Study Research: Design and Methods.* Thousand Oaks, Calif. [u.a.]:Sage.

Young, H. 1993. The Evolution of Conventions. *Econometrica,* 61, p.p. 57-84.