

## **Continuity and Change in the Japanese Economy: Evidence of Institutional Interactions in Financial and Labour Markets**

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Two decades have gone by since the heyday of Japan's economic success. What has changed since, and what has stayed the same, in the institutional underpinnings of the Japanese form of capitalism? A time span of two decades enables us to address this question, by investigating incremental institutional changes that might remain undetected if we were to adopt a shorter period for analysis.

The political economy of Japan has been characterized by tightly knit institutions of relational coordination, specifically the main bank system, lifetime employment, trust-based inter-firm relations, and neo-corporatist business-labour-government relations. These institutions tended to enforce homogeneity in practices and high-level performance. By the late 1990s, however, diverse patterns of organizing have become evident (Aoki et al 2007).

This chapter aims to shed light on the nature of institutional change and continuity in the Japanese economy. When, why and how has institutional change occurred in the Japanese capital and labour markets? And how do institutions within and between capital and labour markets interact to bring about changes? This chapter addresses these questions by focusing on the institutional environment for entrepreneurial start-ups, whilst giving regard to the context of the Japanese economic system as a whole.

The paper begins by developing a framework for analyzing institutional continuity and change in Section 1. Section 2 examines the nature of institutional changes in capital markets, and Section 3 the nature of institutional transformation in labour markets. Section 4 turns to the analysis of institutional interactions in these capital and labour markets from the perspective of entrepreneurial start-ups.

The key contributions of this study are as follows. First, this chapter advances a model of institutional change in a specific direction, namely towards

liberalization. This direction of change involves the dismantling of collective action, and is marked by a diverse pace of change (due to non-collective defection and adoption) and increased organizational diversity within the system. The model also identifies agents for change, their capacity for action, and ambiguity in institutions as affecting the pace and extent of institutional change. Second, the empirical analysis demonstrates that institutional change has gone much further in labour markets than in capital markets, and finds reasons for the difference in the stronger political power of agents for change and the greater ambiguity of institutions in the former than the latter. Third, this study examines institutional interactions in financial and labour markets taken together, rather than treating each market arena separately. This level of analysis is essential to tackle the question of whether incremental institutional change amounts to systemic change at the national level. We argue that unlike the functionalist perspective that lends us to look for a high degree of institutional interaction between capital and labour markets, we observe much looser and de-coupled arrangements. The case of Rakuten provides insights into the extent to which agents depend on, or remain relatively independent of, specific institutions. Thus, entrepreneurs may use, avoid, or recombine specific institutions to suit their purpose.

### **1. Institutional Continuity and Change**

Comparative institutional analysis has proven to be a useful framework for identifying differences and similarities in economic and political institutions that underpin capitalist development (Morgan 2010). This intellectual tradition may be traced back to Max Weber's ideal type approach, but more recently to Andrew Shonfield who traced the role of institutions surrounding market and mixed

economies in the process of modernization (Shonfield 1964). In the 1980s, social scientists resumed this pursuit (e.g. Hollingsworth and Boyer 1998, Whitley 1999). In attempts to articulate how institutions fit together in a national system, these frameworks came to emphasize stability. Moreover, by identifying more than one ideal type, the notion of convergence gave way to the idea of persistent divergence as national systems fended off common pressures of globalization in different ways.

The relative demise of the USA, Germany and Japan as an economic power, and the rise of emerging markets (including the so-called BRICs), provide good empirical grounds for reconsidering this dominant theoretical lens of comparative statics. Considerable progress has been made recently in moving away from dichotomous typologies (Amable 2003, Crouch, 2005), and in explicitly recognizing that slow and incremental change may bring about transformation in the nature of institutions (Streeck and Thelen 2005). This section builds on these insights to create an analytical framework of use for empirical work in Japan. Japan is a coordinated market economy (CME) moving in the direction of liberal market economy (LME) (Hall and Soskice 1990), a welfare capitalist system moving towards stock market capitalism (Dore 2000). In the four-way typology adopted for this book (see the Introduction chapter), Japan remains a ‘networked’ system, albeit with power shifting away from labour towards capital.<sup>1</sup>

### **Two contrasting perspectives on institutional change**

In order to make explicit some of the implicit assumptions behind notions of institutional stability and change, let us first summarize the essence of two contrasting approaches. One approach, Varieties of Capitalism, sees change as rare, with long

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<sup>1</sup> This power shift should not be confused with a move towards a ‘personalized’ system, as stronger capital has not made ownership structures, corporate governance, and labour-management relations in Japan more personalized than before.

periods of institutional stability disturbed by a radical breakdown. The other approach, Incremental Institutional Change, focuses on a slow pace of continual de-institutionalization and re-institutionalization.

A highly stylized framework for analyzing 'varieties of capitalism' (VoC) identifies institutions in four subsystems, namely in corporate governance, inter-firm relations, labour markets, and education and training (Hall *et al.*, 2001). A national system consists of these elements that are mutually reinforcing, or 'institutionally complementary'. Two institutions are complementary if the presence of one increases the returns from the other. Thus, institutional complementarity is an aspect of cohesion or synergy between institutions that is predicated solely on performance outcomes. By implication, any piecemeal institutional change brings about sub-optimal performance outcomes. Consequently, institutional change is either an adaptive adjustment to preserve the existing self-equilibrating system, or as a radical disruption that occurs rarely due typically to exogenous shocks such as wars and crises.

A contrasting second approach to institutional change is the framework of Incremental Institutional Change put forward by Streeck and Thelen (2005). They regard institutions as 'regimes' in which rule-makers and rule-takers interact to enact the rules in question. They identify five mechanisms via which transformative change may result in the nature of institutions even if the change is gradual. *Displacement* happens when new models emerge and diffuse, and agents defect from existing, previously taken-for-granted institutional arrangements. *Layering* occurs when a new institution is placed alongside an old institution. Whilst the two may co-exist for some time, faster growth of the new siphons off support for the old. *Drift* results from neglect of existing institutions when rules may remain unchanged in

the face of evolving external conditions. *Conversion* refers to the redeployment of old institutions to new purposes and goals. *Exhaustion* involves the gradual breakdown of institutions as they are overextended in use and encounter diminishing returns.

The two approaches are contrasting in a number of important respects. First, Varieties of Capitalism (VoC) is overly functionalist in linking system coherence and stability to the notion of institutional complementarity. By contrast, Incremental Institutional Change (IIC) posits a much looser interconnectedness amongst institutions, which are often ambiguous. Second, this difference in attributing tight or loose system coherence results from a difference in what stability signifies. VoC adopts an economists' notion of stability as an equilibrium in which all agents' incentives are aligned with each other at that point. By contrast, IIC regards institutional stability as a political compromise reached by actors with conflicting interests. Third, institutions are, therefore, resources to be used by actors in the IIC framework, whereas they are constraints that define actors' preferences in the VoC framework. Fourth, changes are brought about primarily through exogenous factors in the VoC framework, whereas IIC places endogenous change on centre stage.

To summarize, if extreme versions of the two approaches were taken at face value, we make a mockery out of the distinction between institutional continuity and change. VoC places such faith in the ability of institutions to self-equilibrate that it sees long waves of continuity rarely broken by radical changes. By contrast, IIC views the institutions of advanced economies as being in a constant state of flux, with various actors – the state, employers, labour – vying with each other to redefine those institutions to their own advantage. Thus, nearly all periods of stability mask seeds of incremental institutional change.

### **Causes and mechanisms of incremental institutional change**

In order to go beyond this disagreement – seeing stability or change in the same empirical phenomenon – we need to focus our attention on causes of incremental institutional change as a way of gauging the sustainability of such change. It is difficult to judge whether transformational institutional change has reached a tipping point, or a point of irreversibility, by just examining the extent of change. This is because the mode of incremental institutional change affects the extent of change in a system, with some modes – such as layering or exhaustion – leading to a prolonged period of high organizational diversity within the system (Sako 2005). We need to identify not just the outcome but also the underlying causes of such within-system diversity. Therefore, the analysis requires identifying economy-wide conditions for de-institutionalization, collective agents of change, and their capacity for action.

Adapting Oliver (1992)'s approach, an important cause of institutional change is de-institutionalization, an opportunity to shift the basis of legitimacy of an established and taken-for-granted institution. It may occur because of a decline in the instrumental value of the institution, a change in political power distribution, or normative fragmentation. When the legitimacy of an institution is at stake, institutional ambiguity – with different actors attaching different meanings to a specific institution – is likely to be greater, creating scope for contestation (Jackson 2005). Institutions are regulative, cognitive, or normative (Scott 2001), and ambiguity may arise from changes in cognition or norms as well as in regulation.

Next, the analysis must identify collective agents of change and their 'capacity for action' depending on the resources – economic, social, and political –

that they can command to bring about change (Greenwood and Hinings 1996). These agents may be new entrants or incumbents, and incumbents may, or may not, be resisting institutional change. A typology similar to the one proposed by Mahoney and Thelen (2010) emerges. As a proposition, the more ambiguous institutions are, and the greater the capacity for action of agents for change, the more widely diffused and sustainable the institutional change in question is likely to be.

The rest of this chapter updates the empirical evidence in Sako (2007), which chose to study the ‘layering’ of new stock exchanges and the ‘conversion’ of venture capital in the financial market, and the ‘conversion’ of Shunto and the ‘layering’ of atypical forms of employment in the labour market (see Figure 1). The evidence in the next two sections indicates that institutional change has been more extensive and sustained in the labour market than in the financial market.

- INSERT FIGURE 1 ABOUT HERE -

## **2. Changes in Financial Market Institutions for Start-ups**

In this section, we examine the creation of new stock exchanges for start-ups from 1999 – a case of layering -- and the gradual conversion in the nature of venture capital funding from loans to investment. We then analyze how these two institutions, new exchanges and venture capital, interact to provide financing for start-ups. By focusing on financing for start-ups, rather than financing for established corporations, we are able to focus on agents for change, their power (or lack thereof) to influence and bring about institutional change, and the impact of existing financial institutions on the emergence of new institutions.

*The thin layering of new stock exchanges during 1999-2009*

In the late 1990s, Nasdaq US's effort to enter the Japanese market faced elusive opposition from within. However, Nasdaq US eventually managed to identify a willing partner in Softbank Corporation which became a joint venture partner to create Nasdaq Japan. The Tokyo Stock Exchange then responded by creating a Market for High Growth and Emerging Stocks (Mothers). Both exchanges sought to attract new and recent start-up companies particularly in high tech sectors. Cumulatively, by 2009/10, seven new stock markets have attracted more than 1000 IPOs (Initial Public Offerings) (see Table 1).<sup>2</sup>

- INSERT TABLE 1 ABOUT HERE -

The first decade, from 1999 to 2009, has been challenging for the new stock exchanges in Japan. Soon after their opening, these new markets suffered a general decline in the volume of trading in stocks and shares due to the end of the dot-com bubble. In the United States, Nasdaq peaked at 5048 points on 10<sup>th</sup> March 2000, sharply collapsing thereafter until the market touched the lowest point in mid-2002. The performance of the two new markets in Japan reflected this US trend (see Figure 2). The number of IPOs reached bottom in 2001 for Mothers and in 2003 for Nasdaq Japan.

Further, both markets suffered an image problem early on as a result of a number of major bankruptcies and suspicions of involvement by the Japanese mafia in companies planning to list on TSE Mothers. With a sluggish growth prospect, Nasdaq US pulled out of Nasdaq Japan only after a couple of years, and Osaka Stock Exchange came to the rescue to host the exchange as Hercules from December 2002.

- INSERT FIGURE 2 ABOUT HERE -

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<sup>2</sup> However, of those, 867 are in JASDAQ which was established as long time ago as 1963, and attract both established and new businesses.

The markets picked up somewhat since then, so that by the end of 2005, there were 150 listed companies in TSE Mothers, and 127 listed companies in Hercules. TSE Mothers touched the highest mark at 2800 points on January 16, 2006, and Hercules reached 4200 points on the same day. However, the Livedoor scandal, in which the founder, Horie, and four other executives of the company were found guilty of securities fraud, destroyed the two markets. Both markets again suffered an image problem, turning away potential investors and companies wishing to go public. Consequently, the TSE Mothers index reached 269.41 points, which was one tenth of the peak reached before the Livedoor scandal. At the end of 2009, the TSE Mothers index was still 416.22 and Hercules index was 558.70.

Thus, the layering of new stock exchanges onto the existing stock exchanges has not taken off, and remains thin on the ground. The market capitalization of these exchanges is indeed tiny; for example, TSE Mothers at \$19 billion accounts for less than 1% of the market capitalization of TSE as a whole (see Table 1). At the same time, the new stock exchanges rely on domestic individuals for three-quarters of their market value, which is in great contrast to the ability of TSE First Section to attract investors from overseas (see Table 2).

- INSERT TABLE 2 ABOUT HERE -

#### *Partial conversion of venture capital during 1999-2009*

Venture capital, originating in the US, provides early-stage funding for high-risk high-return entrepreneurial start-ups. In Japan, by contrast, the origin and growth of venture capital followed a very different trajectory, resulting in different sources of funds and investment patterns as detailed below. Consequently, venture capital arms of Japanese financial institutions advanced loans and made low-risk –

low return investment decisions. Since the late 1990s, however, Japanese venture capital has undergone a slow process of conversion, moving away from being embedded firmly in a bank-based system towards gaining some (but not all) characteristics of an equity-based financial system.

The 1970s and 1980s saw banks, securities firms, trading companies, regional banks, and insurance companies establish their venture capital subsidiaries. Until the early 1990s, major venture capital subsidiaries had extended more loans than equity finance, a legacy dating from the 1970s recession to survive by engaging in straight lending. Gradual conversion took place since the late 1990s, preceding the Limited Partnership Act for Venture Capital Investment in 1998, which defined the legal basis for the limited liability of non-general partners in venture capital funds. This piece of legislation came about following some Japanese venture capitalists adopting US-style venture funds in the form of a "voluntary partnership". The regulatory body realized that the absence of legal protection was undermining investors' incentive to take a stake in venture capital investment.

Whereas in 1990, 65% of venture capital came from loans, by 2008, less than 0.1% did (see Figure 3). It is unlikely that the recessionary pressures in the late 2000s would reverse this trend towards the elimination of loans advanced by venture capitalists. During the same period, the proportion of investment committed through syndicated venture capital funds rather than through own accounts (i.e. without syndication) increased from 9% to 73%.

- INSERT FIGURE 3 ABOUT HERE -

#### *Institutional interaction between venture capital and new stock exchanges*

Why has change in capital market institutions for start-ups been limited and

slow in Japan? Answers can be found in the way institutions interact in capital markets. A comparison of Japan with the United States in the three phases of the "venture capital cycle" (Gompers and Lerner 1999) highlight such institutional interaction.

### **Fundraising**

In the US, venture capitalists raise money from individuals and institutions to invest in early stage start-ups. Pension funds, financial institutions, and institutional investors dominate as sources of funds (see Figure 4). In Japan, the distribution of sources of funds is quite different. Financial institutions such as banks and insurance companies account for 31% of the newly formed venture capital funds in 2006, whilst business corporations account for 19%. Pension funds and endowments account for less than 5%. A large majority of the investors are domestic players, and foreign investors provide only 1% of funds.

- INSERT FIGURE 4 ABOUT HERE -

These sources of funds for venture capital in Japan militate against high-risk high-return investment. In fact, the average return to Japanese venture capital investment was below 3 percent, compared to 10 – 20 percent in the US and Europe (VEC 2007, NVCA 2007, EVCA 2007). A small number of "real" venture capital funds in Japan may achieve high returns from taking high risk. But generally, Japanese venture capital today function as a lower return investment vehicle. This creates a vicious circle in which only those investors who accept the status quo – domestic rather than foreign investors – provide funds.

### **Investing**

In the US, venture capitalists invest in only a handful of entrepreneurial ventures selected from hundreds of proposals. Once an investment decision is made, a

principle investor fulfils most of their financial needs, if necessary by syndicating further investments. Venture capitalists are actively involved in the running of portfolio companies often by demanding a seat on the board of directors. They tend to accumulate requisite skills to monitor and advise portfolio companies by specializing in a particular industry or a specific stage of development (e.g. early stage).

In Japan, these characteristics are often absent. Excepting a small number of private venture capitalists who have the same investment approach taken by the US examples, venture capital funds take a more 'hands off' approach. Three factors underpin this practice. First, Japanese venture capital firms have a wide portfolio of thinly spread small investment projects. Indeed, the average size of investment in Japan, at \$0.9 million, is one-eighth of the average in the US (VEC 2009, NVCA 2010). With a wide portfolio, there is insufficient time to monitor each project. Second, venture capital firms that are subsidiaries of banks and insurance companies may use the same sort of criteria for investment decision as for advancing loans with collateral. Third, there is lack of specialization amongst Japanese venture capital firms, as most continue to provide funds for all stages of financing. In 2009, only 8 % of venture capital investment is made to support the establishment of new ventures (i.e., start-ups less than one year old), while 49% of the investment is committed to ventures with a track record of five years or longer (VEC 2009).

### **Exiting**

Venture capitalists turn illiquid stakes in private portfolio companies into realized returns. They can do so by "exiting" an investment in a number of ways, including M&A and Initial Public Offering (IPO). The risk-averse characteristics of Japanese venture financing is also evident when exiting. During 2004 and 2008, nearly 80% of Japanese start-ups were said to "exit" venture capital finance via either

IPO (42%) or M&A (37%); only 635 (19%) resulted in bankruptcy or liquidation (see Figure 5). By contrast, in the US, only 47% of exits were via IPO or M&A.

- INSERT FIGURE 5 ABOUT HERE -

Until ten years ago, it was virtually unthinkable for young ventures to go public in Japan because of strict listing requirements. As a result, venture capital firms in Japan have realized gains mainly from interest payments on loans and normal returns on investment until around early 1990s. The opening of TSE Mothers and Nasdaq Japan made a step change in this situation. Further, the government has been the agent of institutional change, legislating for the 1995 revision of the anti-trust law that permits venture capital investors to take board seats at portfolio companies, the 1997 legalization of stock options for all companies, and the 1998 Limited Partnership Act for Venture Investment. However, soon after their opening, these new stock markets faced image problems, leading the government and other stakeholders to tighten the listing requirements for IPO. These raised the cost of listing for entrepreneurs, deterring some from IPO.

To summarize, since the late 1990s, the demonstration effect of the US dotcom boom and the private action by Nasdaq US and Softbank, followed by state actions, led to a step change in the rules for new companies in Japan, providing an option to go public. However, the layering of new stock exchanges onto a bank-based system remains thin, due in part to the mafia and scandals, but also due to the slow conversion of Japanese venture capital. It took over 30 years for Silicon Valley to develop an effective venture financing model. It is therefore too early to conclude the ultimate effects of new stock exchanges and venture capital in Japan. However, we observe for now a case of incremental institutional change in which the process of

layering and conversion is here to stay for some time, putting a brake on each other rather than fuelling the speed of change. Moreover, in a sea of internationalizing financial markets, the Japanese financial institutions for start-ups remain remarkably domestic in their sources of funds, because of the absence of attractive high-return investment opportunities in Japan.

### **3. Changes in Labour Market Institutions**

In labour markets, we examine two institutions. First, we present a case of conversion in Shunto, the annual pay bargaining round which went through a process of redirecting its goals, from being a ‘spring offensive’ for wage hikes into a discussion forum on the macro-economy to accommodate wage restraint and pay dispersion. Second, we analyze the layering of atypical forms of employment onto the lifetime employment norm, triggered in part by labour law reforms implemented through a public policy-making process that came to exclude labour. We end this section by analyzing the impact of these two institutional changes on lifetime employment.

#### *Shunto wage bargaining as a case of conversion*

Shunto – the Spring Offensive – is a highly coordinated annual wage bargaining round, which began in 1955 when radical union leaders sought greater solidarity in bargaining, in order to overcome the shortcomings of enterprise unions (see Sako 1997 for details). Nevertheless, formal negotiations and settlements over pay and bonus take place at the decentralized level of the enterprise, leading some writers such as Calmfors and Driffil (1988) to classify the Japanese bargaining structure as one of the most decentralized in the world.

Such characterization, however, missed the key mechanisms of information sharing and coordination that ensured that Shunto settlements were compatible with good macro-economic performance and superior international competitiveness. First, at the national level, the two peak organizations, Rengo (Japanese Trade Union Confederation) and Nippon Keidanren (Japan Federation of Economic Organization) issued 'guidelines' for non-inflationary wage demand and offer that Japan could afford. Second, unions and leading companies in export-oriented manufacturing sectors became pattern setters with powerful sanctions to stick to an agreed settlement that was uniformly applied to all bargaining units. Third, pay settlements were highly synchronized on a particular date in the spring, thus eliminating the possibility of wage leapfrogging. Fourth, wage settlement norms diffused in an orderly fashion from the private sector to the public sector, from leading pattern-setting sectors to follower sectors, from large to small firms, and from corporate headquarters to subsidiaries and affiliates.

Shunto thus acted as a functional equivalent of encompassing organizations (in Olson's sense (Olson 1982)). Encompassing organizations police free riders and provide members with incentives to internalize externalities (here in the form of wage-push inflation). The Olsonian logic of collective action worked along three channels: first, through the organized business interests at the national and industry levels; second, through organized labour articulated from national, industry, down to enterprise levels; and third, through the institutional nexus between labour and product markets in bargaining within the corporate group. Union coordination via *roren* federations mirrored employer coordination within corporate groups (Sako 2006).

A breakdown in this sort of collective action is evident in government

statistics (Ministry of Health and Labour (MHL), annual). A survey of large firms demonstrates that over time, ‘company performance’ (i.e. the ability to pay) has grown in importance as a determinant in Shunto wage settlements, relative to ‘social norm’, i.e. setting wages according to the going rate that is seen to be socially acceptable (see Figure 6). The same MHL survey shows that the dispersion of Shunto wage settlements, with spikes due to economic shocks, is on a secular upward trend (see Figure 7). Moreover, with union density declining from over 30% in the 1970s to 18.7% in 2008, the survey captures an ever-diminishing segment of the Japanese economy.

- INSERT FIGURES 6 and 7 ABOUT HERE -

In short, the rise in wage dispersion has been caused by a conversion in the goals of Shunto. Shunto may well be an institution whose utility has passed its sell by date in the prolonged period of low inflation and low growth.

#### *Layering of atypical forms of employment*

Since the late 1990s, labour markets in Japan have become decisively more diverse and flexible, due in part to a number of changes in the law as well as in corporate strategy. Non-regular or atypical employees increased from 8.8 million (20 per cent of the Japanese workforce) in 1999 to 17.6 million (34 per cent) by 2008 (JILPT 2010, p.36). In 2007, of the 17.6 million atypical employees, the largest group remained part-time workers (22.5% of total workers), followed by ‘dispatched workers’ (*haken rodosha*), dispatched from labour placement agencies (4.7% of total workers). Although proportionately insignificant, the number of registered dispatched workers increased six-fold in just over a decade, from 437,000 in 1994 to around 3 million in 2007 (JILPT 2010).

The labour market in post-war Japan has always been somewhat segmented. Thus, non-regular workers such as part-timers and seasonal workers were in use in the 1960s. But the period after the late 1990s has been marked by a greater use of different types of atypical workers. Whereas in the past, these workers were hired as a buffer to cope with cyclical fluctuations in demand, the prolonged recession of the 1990s has encouraged firms to use them on a continuous basis to reduce personnel costs and to turn fixed costs into variable costs (Chubu Sanseiken 2004). Competition from China has put extra pressure on Japanese firms to make greater efforts towards cost reduction. This also means that contingent labour has become more prevalent on the manufacturing shopfloor. In manufacturing, there are as many workplaces where regular and non-regular workers are doing the same tasks as workplaces where the two are clearly separated (Sato et al 2004, p.81).

Legislative changes accelerated since the late 1990s, when employers' demand for deregulation found a more receptive government during and after the Hosokawa administration. Although the tripartite labour advisory council had been the main body for deliberating and formulating new bills, it came to be bypassed by the Deregulation Subcommittee that systematically gave greater voice to employers and the state at the exclusion of labour representatives (Nakamura 2009). Labour, through its peak organization Rengo, changed tact, by shifting its veto points from advisory councils to the Diet, that is, from a relatively consensual bureaucratic policy-making process to a more contentious political forum involving lobbying and negotiations with political parties (Miura 2003).

In this climate, it became possible to pass a large number of revisions in labour law. The 1985 Labour Dispatching Law (*haken ho*), legalizing temporary agency work for specific occupations, was revised in 1996 to increase the number of

permitted occupations from 16 to 26. The 1999 revision then turned this positive list of permitted occupations into a 'negative list' of prohibited occupations, most importantly in manufacturing. However, the 2003 revision finally lifted the prohibition of the use of agency labour in manufacturing, and extended the maximum period of continuous employment of agency workers from one to three years.

Before the prohibition was lifted, on-site contractors (*kounai ukeoi*) – who must provide machinery and equipment as well as supervision of labour – came to occupy manufacturing areas where employers would have preferred to hire agency labour. They are concentrated in electronic components manufacturing, automobile assembly and parts manufacturing, and telecommunications equipment (Sato et al 2004, p.30). However, agency workers have come to replace on-site contractors in production areas where employers prefer direct supervision. On-site contractors are therefore being forced to rethink their business strategy, by diversifying into labour placement agency business or by focusing on more specialist high skill tasks (Kimura et al 2004).

Moreover, the 2003 revision of the Labour Standards Law extended the maximum length of fixed-term contracts of directly employed temporary workers from one year to three years, and this has increased their use. At Toyota, for example, the number of fixed term employees increased from 3140 in 2000 to 9520 in 2004, constituting 25 per cent of the total shopfloor workforce (Chubu Sanseiken 2004, p.50). At the 44 supplier companies surveyed by Chubu Sanseiken, the proportion of non-standard workers to total workforce ranged from 9 per cent to 80 per cent. At one extreme, 6 out of the 44 suppliers had 50 per cent or more of their workforce on non-standard contracts (Chubu Sanseiken 2004, p.1). Similarly at Nissan Oppama Factory, 20 per cent of a total of 2560 shopfloor workers were on

fixed term contracts in 2003.<sup>3</sup>

The 1998 revision to the Labour Standards Law introduced the notion of discretionary work for non-professional white collar. This enables more flexible working and no overtime payment for a wider range of white-collar workers in a variety of sectors of the economy.

A wider use of contingent labour in the name of greater numerical flexibility and labour cost reduction has adverse implications for industrial relations. Enterprise unions are ‘hollowed out’; if management ignores or simply informs unions on hiring atypical workers, unions’ bargaining power and voice will become weaker. Moreover, in the new national politics of labour, Rengo (the trade union confederation) must perform a delicate balancing act as it attempts to represent the unorganized without exposing disagreements among affiliated unions on this issue.

#### *Impact of the new layer on the old institution of lifetime employment*

The layering of atypical forms of employment appears to be gaining traction, in the sense that these new elements are gradually destabilizing the old institution of lifetime employment. The fringe has grown and has been eating into the old core slowly but surely in a number of ways. It is worthwhile clarifying what ‘typical’ or ‘standard’ employment is before identifying what is not so (Ogura 2005). In Japan, ‘atypical’ refer to workers who are not in full-time employment with an indefinite contract length. However, implicit in the notion of ‘lifetime employment’ is the absence of restrictions placed on job scope and workplace location (Sato and Sano 2004, p.44). In theory, therefore, ‘typical’ employees would have no restriction on either, whilst ‘atypical’ workers would have limited job scope and no expectation of

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<sup>3</sup> Factory visit by the first author as part of the International Motor Vehicle Program (IMVP) plant tour, 10 September 2003.

re-location. In reality, however, regular contracts have come to impose restrictions on work location or job scope, thus blurring the boundary between a typical and an atypical employment contract. A loyal company man who is willing to work at any location to do any job for the firm is on the decline.

Other restrictions came to undermine the ideal notion of lifetime employment. Whereas in the past it meant a job guarantee within a single firm, lifetime employment came to be redefined as income guarantee with career support within a corporate group, and then further redefined as job security but with no income level guarantee in the 1990s. The pervasive use of early retirement at an earlier and earlier age – from 55 to 50 to 45 years of age – was applied to some established firms such as NTT Group (Sako and Jackson 2006). This would eventually put an end to the essence of lifetime employment, be it job security or as income guarantee. Overtime, mid-career hires are increasing gradually, occupying managerial positions as well as specialist positions in corporate hierarchies, undermining the notion of internal promotion.

In summary, by the late 1990s, Shunto had converted its goal from coordinated pay bargaining to acquiescing wage restraint, facilitating greater pay dispersion and diverse forms of employment. Japan has had a core-periphery dual labour market. But the layering of atypical forms of employment has become much more significant, seriously threatening the institution of lifetime employment and enterprise unionism. Employment in Japan has become more diverse with greater reliance on numerical rather than functional flexibility, all in the name of defending employment security for the core workforce. As the core employees with secure employment and pay diminish over time, there would be at some stage a point at

which a qualitative change would occur in people's perception of lifetime employment as a social norm.

Compared with the financial market institutions, incremental changes in labour markets appear to be closer to this tipping point. The key reason for this lies in the greater capacity for action by the agent of change in labour markets. Management in the mainstream large corporate sector have had the capacity to act at the firm-level via corporate restructuring, and at the national-level via lobbying for policy changes. Management's upper hand has resulted from weaker organized labour on the domestic front and the exist option to close Japanese factories and relocate to cheaper Asian locations on the international front.

### **3. Institutional Interactions for Start-ups**

We now turn to corporate level action, in order to observe how agency at this level has had a hand in transforming institutions. This section focuses on the case of a business start-up, in order to investigate how it takes advantage of institutional interactions in capital and labour markets, or cope with relatively unfavorable institutions by avoiding their use.

This section analyzes the case of Rakuten, one of the most successful venture start-ups in Japan since the 1990s. Established in 1997, Rakuten group grew rapidly, reaching a consolidated sales turnover of 298.2 billion yen and 5810 employees in 2009. The company is listed on JASDAC with a market capitalization of 885.5 billion yen (US \$9.4 billion as of 31 March 2010). Its core business, Rakuten Ichiba, is Japan's largest online shopping mall, which accommodates 31,831 online stores and generates gross merchandise sales of 1186.1 billion yen (\$12.6 billion) during FY2009.

**Starting the business by avoiding existing institutions**

In the initial stage, the founder of Rakuten, Hiroshi Mikitani, teamed up with a number of university students with deep knowledge of the Internet. His charismatic background with a Harvard MBA and work experience as an investment banker at a prestigious Japanese bank attracted young talent.

The online shopping mall business requires a relatively large initial investment on the system to exploit economies of scale, combined with small incremental cost per new store. However, Rakuten did not seek any funding from venture capital, and relied on internally generated funds. This was possible partly because the firm avoided spending large system development costs by employing young yet skilled IT engineers. Moreover, it could generate an abundant cash flow by charging a monthly usage fee (initially fifty thousand yen per month) to participating online stores regardless of their merchandise sales level. Thus, after completing the development of the system, the key to growth lay in attracting as many new stores as possible.

Consequently, Rakuten promoted its online business aggressively to small locally based shops across Japan. Partially due to the Internet boom in the late 1990s, many of these shops were considering starting an online business, but did not know how. Rakuten reached out to them by recruiting relatively inexperienced workers and trained them to become sales representatives. Thus, Rakuten developed a business model of revenue generation that avoided reliance on external financial institutions and the normal channel of recruitment in the labour market.

### **Growth through crafting its own eco-system**

The next stage of sustainable growth came with implementing an aggressive M&A strategy financed out of cash generated internally, executive head hunting, and mass new-graduate hiring.

Rakuten went public, listing on JASDAQ, on 19 April 2000, and started to seek M&A opportunities. In pursuing M&A successfully, Rakuten's founder, Hiroshi Mikitani, used his investment banking knowledge to its full, and collaborated with other Japanese start-ups such as SoftBank and Culture Convenience Club. In the decade to 2010, Rakuten executed more than 20 acquisitions and investments, including a \$425 million acquisition of LinkShare Corporation, \$105 million for eBANK Corporation, and \$109 million for Ctrip.com International. These large acquisitions were enabled by Rakuten's market capitalization, which grew from \$5.4 billion to \$10.1 billion during 2004 - 2010, and the cash rich nature of its core business. In 2010, Rakuten Group consisted of around 50 companies operating in seven different business segments (see Table 4).

- INSERT TABLE 4 ABOUT HERE -

Especially after the IPO in 2000 and the establishment of a professional baseball team, Rakuten Golden Eagles, in 2004, Rakuten enhanced its visibility and reputation. Consequently, recruiting became easier than before. Therefore, Rakuten Ichiba, the original core business of online shopping mall, grew from only 169 employees in 2000 to almost 6000 in 2010. This rapid expansion in employment required a two-pronged human resource policy to attract suitable talent.

Firstly, Rakuten searched top talent through head hunting firms and via its acquisitions, and assigned such talent to the management of the portfolio companies. They often came from investment banks or consulting firms and engaged in corporate

planning and/or deal execution. Acquisitions also worked as an important recruiting ground for Rakuten. Rakuten treated top management talent in the acquired firms with extreme care, providing attractive compensation packages. Internal promotion to top management at Rakuten companies is not impossible, but said to be unlikely without experience in M&A or strategy advice, the sort of capabilities that are difficult to acquire within the Rakuten firms.

Secondly, Rakuten also hires a large number of fresh graduates. Starting in 2001, new-graduate hire has been increasing. Rakuten planned to hire 400 new graduates in FY1009 and 600 in FY2010. New graduates typically become either programmers or sales reps. Top performers are seldom promoted to management, however. Labour turnover is said to be relatively high. An ex-employee of Rakuten mentioned that extremely tough on-the-job training and sales targets could nurture excellent talent, but also trigger dropouts and departures.

### **The eco-system: mobile personnel and liquid funds**

Once Rakuten became large, it became easier to access sufficient funds and talent. The challenges faced when the enterprise was young and small faded away as it developed a conglomerate governance model that functions as a start-up incubation system.<sup>4</sup>

The core business, Rakuten Ichiba, acts to provide corporate venture capital (CVC). It invests in, or acquires, new businesses and provides not only financial resources, but also intangible resources such as networks, business knowhow, a high-profile brand name, and human resources. Different from a typical CVC model, Rakuten only invests in their group (or acquired) companies. The core business

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<sup>4</sup> A similar strategy to Rakuten has been pursued by other Japanese start-ups including Cyber Agent (online ad agency), dwango, GMO Internet and Softbank (see Sako (2003) for Softbank).

endorses and attracts new customers and potential job applicants who perceive the small companies as an integral part of the core business. However, in many cases, these small start-ups are managed relatively independently of the core business, especially if the business area is different. This unique model may be considered a hybrid between a Japanese *keiretsu* system and a Silicon Valley business cluster. Internal financing and internal job rotation resemble the keiretsu system; however the way independent companies operate and core business support them is closer to the US start-up incubation model.

There are several reasons behind this development of a hybrid conglomerate incubator model at Rakuten. First, in order to avoid the inhospitable fund raising and recruitment climate in Japan, new ventures become subsidiaries in a corporate group to obtain capital and access to management talent. Second, the domestic focus of the parent company also contributes to building a conglomerate. Once the domestic market is saturated, the only way it can grow further is to start or acquire new businesses. The pressure for high growth due to the high valuation of the firm also pushes it to go for aggressive growth via acquisition. Third, relatively low liquidity and a small quantity of stock options allocated to employees weaken their incentive to monetize the stock options and start new businesses.

Despite a relatively difficult institutional environment, a small number of start-ups have achieved high growth. No dominant successful venture incubation model has emerged in Japan to cope with the Japanese business system. However, as illustrated by the Rakuten case, one response has been to build a financial and managerial employment eco-system, and to protect the business "family" from a harsh external environment. With global financial market integration, corporate groups may have lost some of its rationale in established business, but a corporate group as a

start-up incubator may retain its *raison d'être* in Japan and other emerging economies.

## **Discussion and Conclusions**

This paper analyzed how institutions within and between financial and labour markets interacted in Japan in the past two decades. The study also addressed the impact of changes in the business (and labour) relations with the state. The chapter advanced a model of incremental institutional change elaborated by Streeck and Thelen (2005), with explicit regard to institutional ambiguity, collective agents for change, and their capacity for action as causes of institutional change.

In financial markets, venture capital in Japan experienced 'conversion' – shifting its goal and function from being part of the Japanese institution of relational banking towards being more part of an equity-based finance system, but the pace of change is slow. New stock exchanges were opened for start-ups, but remain layered without directly threatening the existing institutions of relational banking and stock exchanges for established public corporations. Thus, the layering and the conversion of these institutions are neither threatening nor undermining the pre-existing bank-based institutions.

In labour markets, Shunto is portrayed as a case of 'conversion', with its function changing from coordinated pay bargaining to a mechanism for legitimizing pay restraint and dispersion. At the same time, atypical work was identified as a case of 'layering' onto the norm of lifetime employment. Although the Japanese economy had always had a dual labour market, legislative changes and firm-level practices that fuelled the use of agency labour and on-site contracting in manufacturing threaten the norm of lifetime employment more fundamentally than in earlier periods. Thus, unlike in financial markets, layering and conversion in labour

market institutions are stronger and appear irreversible.

Why should institutional change appear more extensive and sustainable in labour markets than in financial markets? The answer resides in differential causes of change. In financial markets, organizational diversity has increased within the Japanese economy due to the continued layering of new stock exchanges and venture capital, two elements of an equity-based financial system. However, they do not seem to threaten the bank-based financial system at the heart of the Japanese economy. This add-on diversity, therefore, is not a sign of gradual breakdown of the system. The agents of change are foreign (e.g. Nasdaq), non-establishment (e.g. Softbank), small and unorganized (e.g. start-up entrepreneurs). Their power base is weak and peripheral in relation to the established political clout of the financial and corporate world of *Zaikai*. These powerful incumbents in the main financial system do not have a direct vested interest in the layered segment for start-ups, a sphere therefore defined more by indifference than constestation. It is notable that this study did not take up the entire financial system in Japan, which itself has been changing gradually to incorporate new hybrid forms of corporate governance (Ahmadjian and Robinson 2001, Jackson 2009).

In labour markets, much more drastic and active changes have occurred in the last decade. The extent of conversion of *Shunto* seems so fundamental, resulting essentially from the shift in the distribution of power from unions to employers. As argued above, the nature of layering of atypical forms of employment is also more threatening, potentially leading to de facto displacement of the institution of lifetime employment. Institutional change is more extensive in the Japanese labour market because the agent of change here is management in the mainstream large corporate sector, who have the capacity to enact the desired institutional changes via managerial

action at the firm-level, collective action in wage bargaining, and influencing policy-making at the national level. Japanese management benefited from fragmented organized labour and was able to strengthen their bargaining and political power. Moreover, whilst labour-management relations are always contested, employers have been able to exploit the ambiguity in the normative institution of lifetime employment to their advantage.

In order to examine the extent to which the impact of institutional changes in financial markets depends on institutional arrangements in labour markets, and vice versa, this paper analyzed the development of Rakuten, an online shopping mall. We found that Rakuten did not rely on external financial institutions at the outset, and undertook a hybrid labour policy of hiring mid-career for managerial talent and hiring new graduates for its sales force. As the company grew, Rakuten internalized its capital market, acting as corporate venture capital to finance as many as 50 new start-ups, keeping them as part of a corporate group rather than managing a cycle of investment and exit for each firm. This is just one in a variety of patterns that result from entrepreneurial efforts to start a new business within the Japanese system. But it is consistent with the co-existence of hybrid forms of corporate governance (Jackson 2009). It also illustrates clearly that the institutional interaction between financial and labour markets can remain relatively loose.

It is difficult to predict whether or not ‘layering’ may eventually lead to displacement of the old by the new institution, and the extent to which ‘conversion’ may lead to *de facto* disappearance of an institution. Nevertheless, the analysis contained in this chapter, by focusing on causes of institutional change, provides some grounds for why we might conclude that institutional change may be much more sustainable in labour markets than in financial markets. Generally in Japan, as

elsewhere, the world is much ‘flatter’ in financial markets than in labour markets. However, this study demonstrates that far from the internationalization of financial markets putting pressure on Japanese firms to adopt more market-oriented labour practices, employers’ interest in liberalizing labour markets is earning more traction than their interest in deregulating financial markets.

Table 1: New Stock Exchanges in Japan

	Date of establishment	No. of listed companies	Total market capitalization (Billion US\$*1)	Average market capitalization (Billion US\$)	Source
New Stock Exchanges	JASDAC	2/1963	867	103.9	0.120 *2
	TSE Mothers	11/1999	186	19.0	0.102 *2
	Hercules total (Growth + Standard)	5/2000	147	9.8	0.067 *2
	Centrex (Nagoya)	10/1999	28	0.5	0.019 *3
	Ambitious (Sapporo)	4/2000	10	0.1	0.013 *4
	Q Board (Fukuoka)	5/2000	10	0.1	0.005 *5
	NEO	8/2007	6	0.04	0.007 *6
Established Stock Exchanges	Tokyo Stock Exchange 1st section	5/1878	1676	3589.5	2.142 *2
	Tokyo Stock Exchange 2nd section	10/1961	441	40.5	0.092 *2
	NYSE		1503	11012.1	7.327 *7
	NASDAQ	7/1971	2222	3151.0	1.418 *7

Sources:

1\* Oanda (2010) OANDA Historical Exchange Rates (2009 average) [online]. <http://www.oanda.com/currency/historical-rates/> [Accessed Access Date 01/04/2010].2\* Quick (2010) Nikkei Quicktrader [online]. Quick Corporation. Available from: [http://corporate.quick.co.jp/service/product/quick\\_trader.html](http://corporate.quick.co.jp/service/product/quick_trader.html) [Accessed Access Date 27/04/2010].3\* Centrex (2010) NSE Monthly Statistics [online]. Nagoya Stock Exchange. Available from: <http://www.nse.or.jp/j/toukei/j-gepo2010.html> [Accessed Access Date 31/03/2010].4\* Ambitious (2010) SSE Statistics data [online]. Sapporo Securities Exchange. Available from: <http://www.sse.or.jp/statistics/distribute.html> [Accessed Access Date 31/03/2010].5\* Q-Board (2010) Fukuoka Stock Exchange Statistics [online]. Fukuoka Stock Exchange. Available from: <http://www.fse.or.jp/statistics/index.php> [Accessed Access Date 31/03/2010].6\* Neo (2010) Osaka Securities Exchange Market Information [online]. Osaka Securities Exchange. Available from: <http://www.ose.or.jp/market/55> [Accessed Access Date 28/02/2010].7\* Capital IQ (2010) Capital IQ Markets [online]. Capital IQ. Available from: <https://www.capitaliq.com> [Accessed Access Date 31/03/2010].

Table 2: Composition of Market Participants at Japanese Stock Exchanges

%, value base, 2007

	TSE 1st section	TSE 2nd section	TES Mothers	JASDAQ	Heracres
Financial Institutions	7.9	3.7	1.4	3.1	1.3
Mutal funds	2.6	2.3	0.7	1.9	0.8
Business entities	2.1	3.4	2.2	2.2	1.7
Other entities	0.4	0.9	0.2	0.5	0.2
Securities companies	0.7	4	4.4	0.8	4.9
Individuals	27.6	64	76.3	79	78.5
Investment from overseas	58.7	21.7	14.8	12.5	12.6

Source:

METI (2008) Venture Kigyo no Soshutsu-Seicho ni Kansuru Kenkyu-kai Saisyu hokoku syo 30/04/2008. Tokyo.

Table 3: Venture Capital Investment by Stage

<b>Japan*</b>				
	<u>No. of deals</u>	<u>Total (million US\$)</u>	<u>Average size (million US\$)</u>	
stage	startup/seeds	300	173.2	0.6
	2-4 years	269	144.7	0.5
	4-7 years	246	125.7	0.5
	More than 7 years	496	267.8	0.5
<b>US**</b>				
	<u>No. of deals</u>	<u>Total (million US\$)</u>	<u>Average size (million US\$)</u>	
stage	Startup/seed	429	1548.7	3.6
	Early stage	1009	5245.7	5.2
	Expansion	1101	9050.0	8.2
	Later stage	1065	9526.3	8.9

\* Japan data (2008) from a survey of 63 Japanese Venture Capitals, exchange rate is 1US\$ = 93.616 yen (2009 average)

\*\* US data is based on a survey of all NVCA members and, is an average of year 07, 08, and 09

Sources:

NVCA (2010) National Venture Capital Association Yearbook 2010 03/2010. Arlington, Virginia.

Venture Enterprise Center (2009) 2008 nen Venture Business no kaiko to tenbou 01/2009. Tokyo.

Oanda (2010) OANDA Historical Exchange Rates [online]. <http://www.oanda.com/currency/historical-rates/> [Accessed Access Date 27/02/2010].

Table 4: Rakuten's Group Companies

Primary Industry	Business	Company Name	% Owned
	Online Shopping mall	Rakuten, Inc. (JASDAQ:4755)	-
	Online Shopping mall	Rakuten USA, Inc.	100
	Online Shopping mall	Rakuten Thailand Co., LTD	100
Commerce	Online Shopping mall	TARAD Dot Com Co., Ltd.	67
	Online Shopping mall	Rakuten Taiwan	51
	Online supermarket	Net's Partners, Inc	79
	Wine sales	Fine wine	100
	Betting ticket sales	Keiba mall	100
	Donation agency	CauseLoyalty, LLC	100
	Online auction	Rakuten Auction Inc.	60
Net service	Online portal	Infoseek Japan K.K.	100
	Photo printing	Rakuten Shashinkan, Inc.	67
	Second-hand sales	Bizseek, Inc.	83
	Q&A service	OKWave	19
	Dating service	O-net, Inc	100
Service	Hospitality service	Signaturejapan Co.,Ltd.	100
	Recruiting agency	Rakuten sociobusiness	100
	Ticket agency	Rakuten Enterprises	100
	Logistics	KAJIYAMA WAREHOUSE Co.,Ltd	100
	Logistics	Rakuten Bus Services Co., Ltd.	75
Travel & Logistics	Travel	Rakuten Travel Korea Inc	100
	Travel	Rakuten Travel Guam Inc	100
	Travel	Rakuten ANA Travel Online	50
	Travel	World Travel System	20
	Travel	Rakuten Travel Inc.	100
	Database marketing	Target, Inc	100
	Loyalty program	Freecause, Inc	100
Media	Marketing agency	LinkShare Corporation	100
	Marketing agency	LinkSare International	100
	Marketing agency	Traffic Gate., LTD	100
	Marketing research	Rakuten Research, Inc.	100
	TV Broadcasting	ShowTime, Inc.	100
	Asset management	Rakuten Securities, Inc., Asset Management Arm	100
	Asset management	Rakuten Investment Management, Inc.	100
	Bank	eBANK Corporation	70
	Consumer finance	Rakuten Credit, Inc.	100
	Creditcard	Rakuten KC Co., Ltd.	97
	Investment	RS empowerment	100
	Realestate roan	Rakuten Mortgage Co., Ltd.	100
	Securities	Rakuten Securities, Inc.	100
	Securities	Dot Commodity Inc	57
	Systeme development	Ebank Systems Corporation	58
IT	Systeme development	TechMatrix Corporation	32
	Systeme development	Drecom Co., Ltd.	20
	Systeme development	Synergy Marketing, Inc.	14
Sports	Baseball	Rakuten Baseball, Inc.	100
	Marchandising	Rakuten Sports Properties, Inc	100
Telecommunication	Broadband	Fusion Communications Corp.	74
	Network service	FUSION GOL	100
Realestate	Realestate agency	Next Co. Ltd.	17
	Realestate management	Rakuten Realty management	100

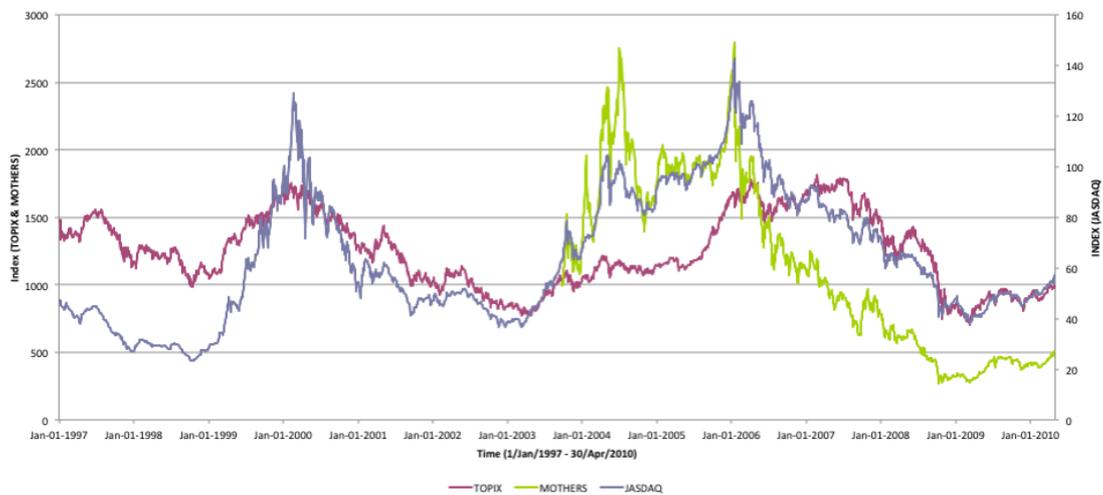
Source:

Capital IQ (2010) Capital IQ Markets [online]. Capital IQ. Available from: <https://www.capitaliq.com> [Accessed Access Date 13/04/2010].

Figure 1: Typology of Institutional Change

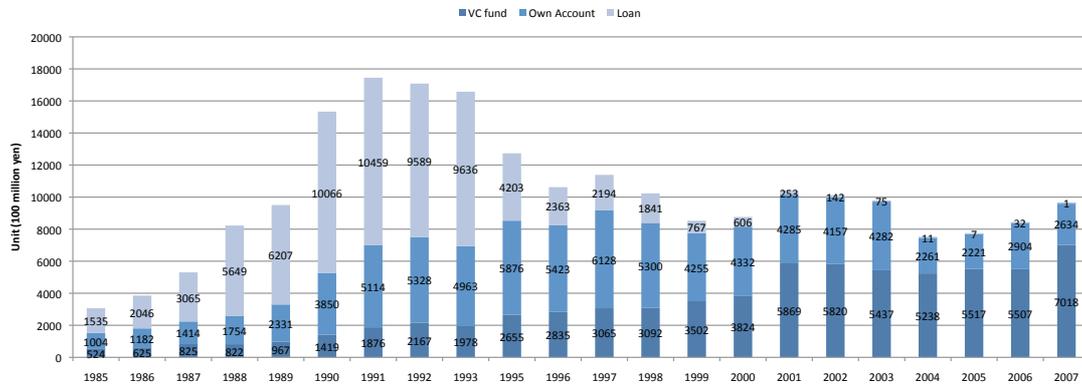
		Mode of Institutional Change	
		Layering	Conversion
Markets	Financial	New stock exchanges (e.g. Mothers, Heracles)	Venture capital
	Labour	Atypical employment (e.g. temporary, agency labour)	Shunto wage bargaining

Figure 2: Stock Price Indices in Japan, 1997-2010



Source:  
 Capital IQ, 2010. Capital IQ Markets [online]. Capital IQ. Available from: <https://www.capitaliq.com> [Accessed Access Date 27/03/2010].

**Figure 3: Venture Capital Investment and Loans Outstanding in Japan**



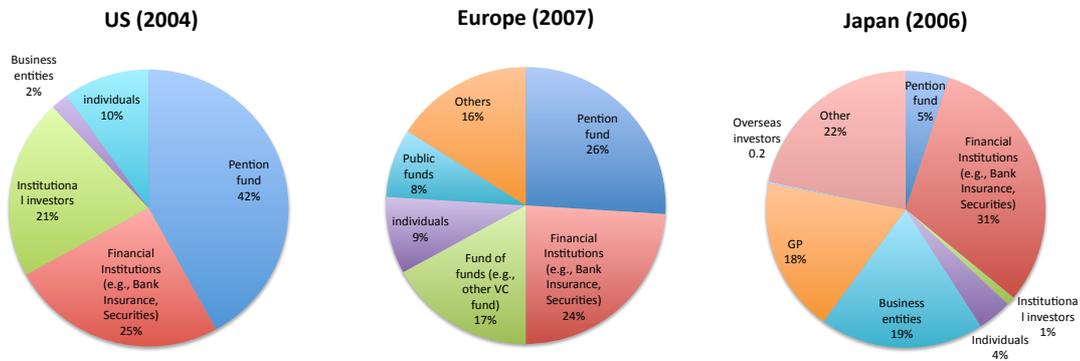
Sources:

Venture Enterprise Center (2003, 2004, 2005, 2006, 2007, and 2008). H13-H18 Venture Capital Tousei doukou chousa houkoku. Tokyo.

Venture Enterprise Center (2009) 2008 nen Venture Business no kaiko to tenbou. Tokyo.

Venture Enterprise Center (2010) 2009 nen Venture Business no kaiko to tenbou. Tokyo.

**Figure 4: Composition of venture capital investors (% , value base)**



\* 100%= (US 10.96 Billion US\$, Europe 112.3 billion Euro, Japan 230.5 billion yen)

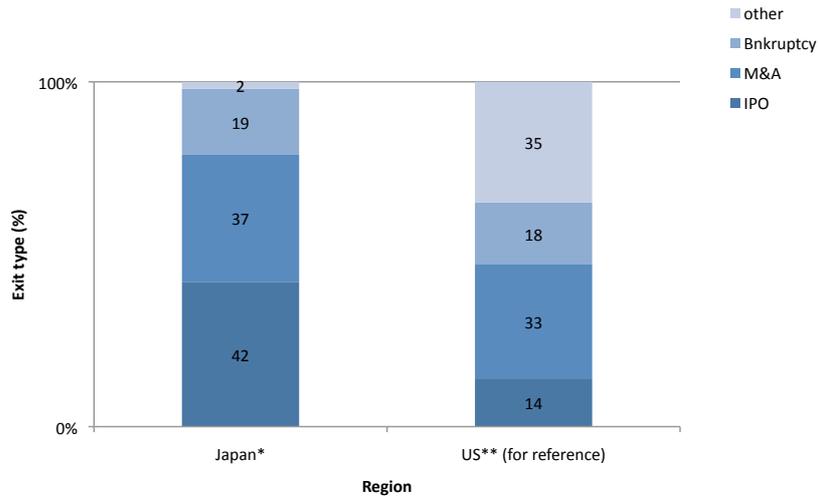
Sources:

Venture Enterprise Center (2007) H18 Venture Capital Tousei doukou chousa houkoku 05/02/2007. Tokyo.

METI (2008) Venture Kigyo no Soshutsu-Seicho ni Kansuru Kenkyu-kai Saisyu hokoku syo 30/04/2008. Tokyo.

Oanda (2010) OANDA Historical Exchange Rates [online]. <http://www.oanda.com/currency/historical-rates/> [Accessed Access Date 03/03/2010].

**Figure 5: Venture Capital Investment by Type of Exit**



\* Japan data from April 2004 until March 2008

\*\* US data from FY1991 to FY2000 (The data is relatively old, thus reference purpose only)

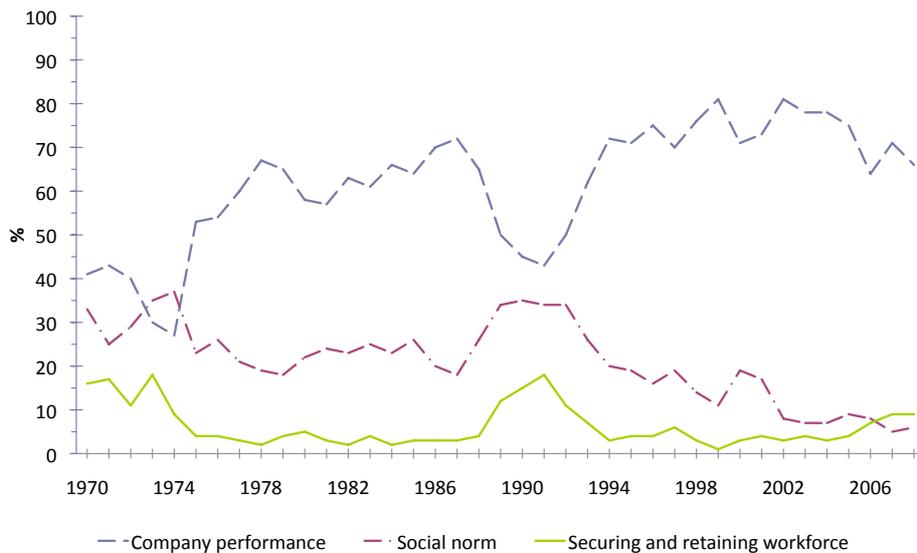
\*\*\* 'Other' includes exits when the investment is deemed unsuccessful.

Sources:

Venture Enterprise Center, 2009. 2008 nen Venture Business no kaiko to tenbou 01/2009. Tokyo.

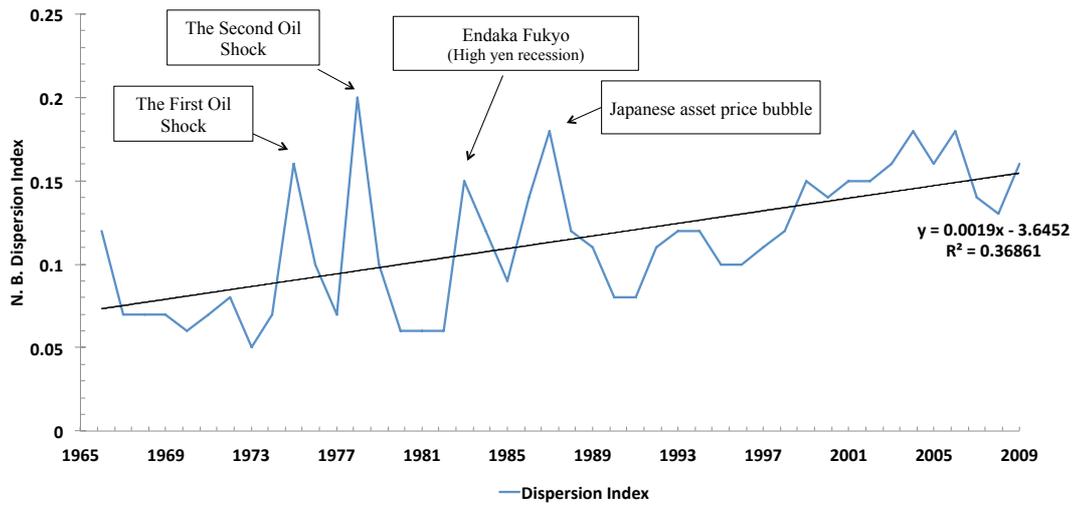
NVCA, 2010. National Venture Capital Association Yearbook 2010 03/2010. Arlington, Virginia.

**Figure 6: The Most Important Factors (top three) in Settling Pay during Shunto Negotiations**



Source: MHLW, 2009. Heisei 20 nen chingin hikiage tou no jittai ni kansuru chousa 12/2009. Tokyo.

**Figure 7: Dispersion in Shunto Wage Settlements in Japan**



Note: Dispersion Index = (3<sup>rd</sup> quartile – 1<sup>st</sup> quartile) / (2 x average)

Source: MHLW (2009) Heisei 21 nen minkan shuyou kigyo shunki chinage daketsu jyoukyou ni tusite 10/09/2009. Tokyo.

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