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Atrae: Human Resources with Humanity

Shoichi Sakatani, Nami Nishimura, and Joel Goh wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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On January 2, 2014, Yoshihide Arai, founder and chief executive officer (CEO) of Atrae Inc. (Atrae), was at a sushi restaurant in the Shirokane district of Tokyo. With him were Toshiyuki Oka, Atrae’s chief technology officer, and Koichi Morita, the product manager of Green, Atrae’s online recruitment platform and most successful product line. Both Oka and Morita were stalwarts of Atrae who had joined the firm in the early days of its founding.

It was around midnight and well past the restaurant’s closing time, but the three men hardly noticed the time; they were deeply engrossed in their discussion. The topic of discussion that evening was whether or not they should take Atrae public and pursue a listing on the Tokyo Stock Exchange. Arai was keen to do so as he felt that it was a timely opportunity for the firm to raise funds and expand its Japanese operations overseas. Morita, however, was morose about the prospects of an initial public offering (IPO), remarking, “It doesn’t make sense for Atrae to go public right now. Doing so would risk upheaving the culture that we have spent so much effort cultivating in Atrae over all these years.”

Unlike many Japanese firms, Atrae had an organic working culture that had developed over time. In particular, Atrae had an extremely flat organizational structure; aside from a handful of senior executives, the vast majority of employees had the same job title. Taking a sip of his sake, Arai reflected upon Morita’s objection. On the one hand, Atrae’s historical success gave Arai confidence that the company could reach even greater heights with expansion, and taking Atrae public would be the effective step for this. On the other hand, he was aware that pursuing a public listing meant that Atrae had to institute formal systems of corporate governance and internal control.

Arai knew that Morita’s concerns were legitimate: the rigidity that such a governance structure would bring stood in stark contrast with the highly decentralized and freewheeling culture that had characterized Atrae. Arai had a strong belief that this culture had been vital for Atrae’s success thus far. He too, shared Morita’s fear that instituting such strict controls might backfire and destroy the culture that he and others had worked so hard to build, inadvertently doing more harm than good.

Arai sighed as he weighed the pros and cons of pursuing the IPO. Doing so would clearly be risky, but would the reward be worth it? As he downed the last of his sake, he knew that he had to come to a decision soon.

Founding Atrae

Arai was born in 1974 in Tokyo. Even in college, he was known for being both unconventional and entrepreneurial. While most of his classmates worked part-time jobs to earn some extra spending money, Arai went off the beaten path and instead chose to run a small advertising business with his friends. He recalled, “My major motivation for starting my own business was to earn money efficiently. However, I realized that in addition to making a profit, the advertising business made both the clients and us feel happy. I liked the business very much.”

In 1996, when Arai was in his third year of college at Sophia University in Tokyo, he started job hunting, following the tradition of new university graduates in Japan. However, he soon lost interest in working for large, established companies. The business people he came across always seemed to be tired, unmotivated, and disinterested in their work.

Traditionally, many Japanese firms provided employees with an assurance of lifelong employment. In Japanese, this was known as *Shushin* *Koyo* (終身雇用), which literally meant “employment forever.” Japanese firms were generally reluctant to hire mid-career workers and instead focused their recruiting efforts on new university graduates, exerting their efforts only in April each year to get new recruits just as they graduated from universities. Generally, a fresh graduate would require around 10 years of working experience at a firm before being eligible to take on a managerial position.

The typical working culture in Japan was hierarchical in structure and emphasized the importance of group consensus and seniority. This culture was embodied by the Japanese term *nemawashi* (根回し), which literally meant “laying the groundwork.” For example, before a junior employee presented an idea to a group of senior executives in a large meeting, *nemawashi* meant that the junior employee was expected to informally and individually meet each executive to appraise them of the idea before the meeting to gain consensus. To succeed in this working environment, employees would have to learn to navigate these unofficial channels of negotiation and rapport to win the approval of senior employees. The process of group consensus was formalized through a system of decision-making known as *ringi* (稟議). In this system, an individual with a proposal requiring a decision would circulate the proposal among peers and managers. Employees would then affix their personal seal indicating their approval of the proposal.[[1]](#footnote-1)

Arai believed that the structure of the traditional large Japanese firm was a key contributor to the low levels of work engagement displayed by the business people he had encountered. He wondered if it was possible to run a business where employees would work together like members of a professional sports team. To Arai, this would be an ideal working environment. Each employee would be passionate about their work and individually responsible for their role, but would also work together with other like-minded, talented individuals to fulfill the common objectives of the team. Above all, it would be fun.

Arai soon recognized that the only way to create an ideal company was to start one by himself. He focused his efforts on the human resources (HR) industry.

Early Atrae

Arai had spent a few years working in the HR industry and came to the realization that the industry had not fully taken advantage of the growing size and power of the digital economy. He saw that the space of “HR tech” was nascent with few players. This represented an excellent opportunity for a new market entrant with the right product offering. To pursue this opportunity, Arai started a new company in 2003, Ubiquitous Communications Inc., which would later be renamed as Atrae.

Confident in his ability to succeed in this venture, Arai began a process of iterative experimentation to find the right business model for Atrae. A product line that emerged from this process was Green, an online platform for job seekers and employers in the information technology (IT) industry. The platform used a proprietary algorithm to match job-seeking software engineers to firms seeking to recruit engineering talent. Green also enabled companies who were recruiting software engineers to create a company page that potential job seekers could use to engage with the company.

Green had a different business model than that of other firms operating online HR platforms, such as the ones provided by Recruit Co. Ltd. and En Japan Inc. (see Exhibit 1). Those platforms primarily worked by providing clients with advertising slots that contained basic details of the clients’ various job openings. The HR firms typically charged clients a fee for listing a job on the platform, regardless of whether the firm ultimately hired a candidate. In contrast, the Green platform went beyond advertising to provide other value-added services typically associated with traditional recruiting agent services; for example, Green included tools that clients could use to manage the interview process for job candidates. Green’s revenue model was also different: it used a contingent hiring fee model, charging the client a fee only if the client successfully recruited a job candidate through Green’s listing.

Atrae’s service design and revenue model were based on Arai’s philosophy of prioritizing value for clients over Atrae’s short-term profits. One way in which this was manifested was through Green’s contingent hiring fee model, which only generated revenue for Atrae when value was created for its client—that is, when a candidate was successfully recruited. Further, Atrae had a policy of refunding the hiring fee if the newly recruited candidate left the firm within a short period. In addition, Atrae provided some financial support for holding welcome parties at their clients’ firms for employees hired through Green.

Although encouraging high workforce turnover would technically generate more business for Atrae in the short term, its business model was designed to discourage high turnover and improve the quality of stable matches between clients and job seekers. Arai recognized that Atrae’s revenue model meant that monetizing Atrae would take longer and revenue losses were possible in the short run. Nonetheless, Arai felt that it was necessary to demonstrate that Atrae valued integrity and sincerity to its clients above all. He believed that this was key to ensuring that Atrae was sustainable overall.

Financial Crisis

With the global financial crisis of 2008, economic growth slowed globally over the subsequent years. Japan was not spared the consequences of what was dubbed the “Great Recession,” and by the summer of 2009, Atrae, which had been growing steadily since its founding in 2003, was feeling the full brunt of the global economic downturn. Many client companies stopped hiring, which had a drastic impact on Atrae’s bottom line. Similarly, the entire HR industry in Japan was severely impacted by the recession. Many HR companies suffered from lower revenue as companies reduced their recruiting efforts. By the early 2010s, only a few large HR firms remained in the industry.

Mid-career employees who worked at Atrae gradually left for better prospects outside the firm. By late 2009, Atrae’s workforce had shrunk from a peak of 40 employees, to only 15, most of whom had started their career at Atrae. Arai knew that he had to make a change in Atrae’s strategic direction, and he planned to do so with the 15 members at its core. In 2009, Arai hosted a two-day boot camp with the 15 members to restart the company. They held serious discussions for the two days about the company’s direction, strategic mission, and corporate culture.

Through the restructuring process, Arai decided that he had to change his leadership style. Previously, before the financial crisis, he had run Atrae with a top-down approach because he had been confident about his decisions. At Atrae, he was the one who had the most experience working in the HR industry. However, in hindsight, he felt that if decision-making had been more decentralized at Atrae, it might have been better positioned to weather the impact of the financial crisis.

In particular, Arai recognized that Atrae’s Internet-enabled business model was multi-faceted and highly complex. Too complex, in fact, for any single individual person, even himself, to make good decisions on every dimension of the product. Instead, he realized that each of Atrae’s functions (e.g., interface design, back-end technical architecture, and marketing) was developed and optimized based on different principles and thus needed different teams with specific skill sets to make the best decisions for each function.

Despite the impact that the Great Recession had on Atrae and the broader HR industry in Japan, there was a positive aspect: the crisis created new market opportunities for Atrae (see Exhibit 2). Atrae’s recruitment fee system allowed companies to minimize their recruiting costs by paying a fee only with a successful hire. In addition, Japanese technology start-ups grew rapidly after the financial crisis, which increased demand for talented software engineers in the Japanese labour market. As a result, the number of users (job seekers) on Green grew steadily at an average rate of 35,000 new users per year. By 2014, the number of users on Green had swelled to 285,000, up from the 12,000 users in 2007. As Green’s user base grew, so did Atrae’s revenue and profits (see Exhibit 3).

Company culture: the Atrae Standard

Arai believed that one reason for Atrae’s rapid growth was that it built its own culture. These cultural values were summarized in what was known as the “Atrae Standard” (see Exhibit 4), which was shared with all employees. The standard comprised five core principles that were intended to guide employees’ actions, particularly when they faced challenging situations in the workplace. Even for small decisions such as changes in the user interface or modification of a single function in an existing product, Atrae employees were encouraged to refer to the Atrae Standard and ensure that their decisions were in line.

For example, four of Atrae’s employees (Toshiyuki Oka, Yusuke Aono, Ryo Toya, and Yuri Hirane) reflected upon an incident when a principle of the Atrae Standard was vital in guiding a critical decision that the four needed to make. This principle was “pursue the things you believe in,” which meant that Atrae employees were encouraged to act upon their own convictions and be responsible for challenging decisions in the event of disagreements. The four had an idea for a new service that Atrae could launch. This service was a smart phone application (app) they named “yenta,” which was designed to allow business people to network with each other across organizational and industrial boundaries (see Exhibit 5). The app used machine learning to generate smart recommendations. However, in an initial poll among Atrae members gauging their interest and feedback on the proposal, the four found that a vast majority (90 per cent) of members that they polled disapproved of their proposal.

Because of this negative feedback, the four were about to abandon their proposal when they remembered the principle of pursuing the things they believed in. They discussed their idea at length to develop a concept they honestly believed in, even though their co-workers were not yet able to see the potential. They even developed a prototype of the service and tested it among 300 users. The test came back with overwhelming feedback, which helped to convince their colleagues of the service’s value in driving potential business growth. Respecting the passion and the enthusiasm of the four, the rest of the members set their minds to supporting the challenge and launching yenta as a product line.

The standard not only served as a guide for Atrae’s members to make new decisions but also was helpful as they reviewed decisions made by others. In another incident, Arai himself proposed a seemingly lucrative business plan of developing an online dating service. His intention was to promote a healthier online matching service fitting the culture of the younger generation, but some members, upon reviewing Arai’s business plan, raised a concern: the service had an unfiltered board that allowed users to post opinions that could make other users feel hurt or uncomfortable. These Atrae members objected to Arai’s idea, noting that his proposed service would violate the “integrity first” and “build mutual trust” principles of the standard. One member even challenged Arai, asking, “Would you be willing to let your children use this service?”

Arai recognized that these concerns were legitimate and tried to redesign the service to allay these concerns. However, even after extensive redesign and concepting, he was not able to find a way to simultaneously fulfill the business objective of the new service and adhere to the spirit of the standard. Eventually, he abandoned the idea. Even though Arai’s idea was not implemented, he reflected positively on this episode because it showed him that Atrae members were serious about their commitment to the principles of the standard, even if it meant disagreeing with the company’s founder.

Distinctive systems were created to maintain Atrae’s unique corporate culture and to help members be proactive in their work. Perhaps the most distinctive feature of Atrae was its extremely flat organizational structure. With the exception of the directors required by Japanese corporate law, members at Atrae had no job position.

Within each project team, all members were viewed as equal in rank: there was no concept of superiors or subordinates among members, and no promotions either. Although each team had a leader, the leader’s role was to create a working environment where each member could work proactively and maximize the productivity of the team. Morita, who was the team leader of the recruiting platform, Green, saw himself as a servant-type leader. Specifically, he viewed himself as a facilitator, who coordinated the work within the team and monitored the overall progress of the team, but he always respected the will of each team member. In addition, he regularly discussed the direction of the overall business framework with Arai on an equal footing and served as a liaison between management and business execution.

This system reinforced Atrae’s culture, in which all members were encouraged to express their frank opinions and where individuals would take ownership of tasks and work proactively after reaching a consensus. Other policies that were put in place to develop Atrae’s culture and encourage employee motivation included a long vacation of one month every three years, an environment that enabled remote work, and a workplace where employees could bring their children to work. All members were also shareholders of Atrae.

In Arai’s view, Atrae’s culture and business success were deeply intertwined. He felt that the culture promoted by the Atrae Standard encouraged value creation for Atrae’s job seekers and client firms and positioned the company for long-term success instead of just short-lived profits. This was reflected in how Atrae advertised its services to its clients. For example, Atrae prohibited advertisements for its services that promised job seekers “you will earn more,” even though such an advertisement would likely increase customer acquisition. But Arai was not willing to make what might be perceived as a promise that, in good conscience, could not be guaranteed and, thus, would contravene the “integrity first” principle of the standard. Instead, Atrae’s advertisements relied on humour to gain traction (see Exhibit 6). This practice led to an increase in trust from customers and laid the foundations for building long-term customer relationships.

In addition, because the “integrity first” principle of the Atrae Standard encouraged members to treat other people as they would treat themselves, Atrae members viewed external stakeholders (e.g., clients and business partners) as they did their fellow Atrae teammates. Face-to-face meetings and joint workshops were regularly conducted, and business partners were invited to join weekly internal social events in Atrae’s offices. (In the typical Japanese working environment, it was considered highly unusual to allow “outsiders” to casually enter one’s office.) The goal was to transform clients into Atrae “superfans” and achieve high business retention rates organically.

In typical Japanese companies, teams from different functional areas tended to work independently of each other and had an arms-length relationship with other functional teams. Atrae, however, was characterized by a flat and flexible decision-making structure. Members from distinct business functions such as marketing, engineering, interface design, and customer success often collaborated in cross-functional project teams—for example, in developing new product features. These cross-functional initiatives frequently occurred organically. For example, one such project began when a member of the customer success team shared an idea with the web design team for improving users’ experience on the platform. Other members from the marketing and sales teams also joined in the discussion because they felt that they had relevant and valuable inputs to add. These ideas were shared for all members through an internal messaging system, and new initiatives were implemented by individual members at their discretion, without the need to go through layers of approval, in contrast with the *ringi* system used in other Japanese firms.

Arai believed that Atrae’s culture was responsible for his employees’ high levels of engagement and motivation, which in turn drove Atrae’s growth. “Atrae employees are strongly proud of themselves being part of Atrae,” Arai remarked. “Atrae-ism is that all employees have a sense of ownership and responsibility.” Arai felt that because everyone in Atrae was generally motivated to contribute toward the organization, it was in a good position to achieve its long-term goals and to avoid the unhealthy sectionalism that tended to plague other Japanese firms. Moreover, the high level of engagement contributed toward an extremely low turnover (averaging one person per year).

As the company grew, Arai wanted to ensure that Atrae’s unique culture was protected and preserved. One area that he paid particular attention to was the employee hiring process. Because he viewed recruitment as akin to accepting new friends into the Atrae community, assessing how well a potential candidate would fit with Atrae’s culture was paramount to Arai. In Atrae’s hiring process, existing members were required to participate in interviews of job candidates so they could assess the candidates’ suitability for Atrae’s community. Candidates were asked questions during the interview process such as the following: Describe a challenge in your life that you’ve overcome and are proud of. What was the most difficult decision you’ve ever made and how did you arrive at that decision? And, if you were the CEO of this company, what would you do to address this particular issue? If Atrae members found it challenging to make a hiring decision, they would take the candidate out socially to get to know them better or even invite the candidate for a one-day, on-site internship to truly understand their character.

Listing Atrae on the stock market

As Atrae’s user base, revenue, and profits grew, Arai started to consider the prospect of taking Atrae public. After learning more about the intricacies of pursuing a public listing on the Tokyo Stock Exchange from speaking to a number of senior executives and specialists in the stock market, Arai summarized his perspective about a potential public listing through an analogy, musing that “going for an IPO is like driving on the highway. It would allow Atrae to take a shortcut and reach our growth targets much more rapidly. However, once you’re on the highway, it’s not easy to get off, and you’re not allowed to slow down.”

Arai and his team began to weigh the specific risks and benefits of a potential IPO and its implications for Atrae’s future growth. On the positive side, Atrae would be able to raise new capital for future growth and indirectly increase the prominence of Atrae’s brand. This could increase credibility with Atrae’s business partners, users, and even financial institutions, the latter of which could help if Atrae were trying to secure new lines of credit. In addition, the stronger brand could boost Atrae’s chances of recruiting talented individuals to join the company. Arai had also done his homework and confirmed that the cost of preparing for the listing could be covered by Atrae’s current assets.

However, as a public company, Atrae would have to institute much stronger internal controls over its employees than it had been doing. For example, it would have to comply with Japan’s *Labour Standards Law*, which required companies to accurately track and manage employees’ working hours and pay overtime wages appropriately. If Atrae introduced a typical management system to do this, such as a timecard, it could reduce the engagement and motivation of Atrae’s employees, who had been accustomed to working with complete flexibility over their hours.

Further, if Atrae went public, Arai anticipated facing pressure from investors to move away from Atrae’s famously flat structure to a more traditional hierarchical one. This would entail multiple layers of middle management and multiple vertical reporting lines. Arai was aware of the merits of the traditional structure: it would be easier for checks and balances to be put in place. Yet, Atrae’s culture of open dialogue and organic cross-functional teamwork could be in jeopardy if it was forced to conform to a rigid hierarchy. Would investors balk if Atrae were to insist on keeping its flat organization? Perhaps there was a way to come to a middle ground that would make investors happy but would also maintain Atrae’s culture?

Time to Decide

The sushi restaurant had closed for business, but the restaurant owner allowed Arai and his colleagues to stay while he went about preparing the ingredients for the next day’s service.

Morita remained skeptical. “If we go public and start to manage our working hours in a rigid way, we will not be able to work freely with an entrepreneurial spirit. In my view, it is nonsense that employees’ compensation will be determined not by their performance but by the working hours.” Morita challenged, “Tell me the truth, Arai: were you tempted by the money in front of you? Did you forget your ambition to create the ideal organization?”

Morita also feared that even if Atrae’s listing was successful, pressure from shareholders would prevent Atrae from taking risks and testing new ventures that would not generate short-term profits.

Oka, who had been silently listening to his colleagues, finally spoke up: “I am neutral about starting to prepare the listing itself because I think that establishing internal controls would be beneficial in dealing with foreign companies in the future. However, I agree with Morita that we would not be able to operate our ideal business under the pressure of new shareholders, especially if we force ourselves to go public and we fail to grow as planned. To be honest, if going public results in Atrae becoming a boring company, I think the listing would be meaningless because we would have lost what makes Atrae unique.”

Arai was taken aback by his two colleagues’ staunch opposition, but he remained calm. He regarded the two as more than just colleagues; they had become close friends over the many years that they had worked together since the early days of Atrae, sharing both joys and sorrows. He was delighted that they had given serious thought to the future of the company and had expressed their frank opinion, which was itself a testament to the success of Atrae’s open culture. However, Arai was at a loss as to whether the company should start listing preparations immediately. If his two closest friends at the company had such strong objections, he could only imagine how other employees might react if he commenced the listing process without their consent.

In contrast to the quiet atmosphere at the late-night restaurant, his mind was filled with tumultuous conflicts. He knew he had to decide soon.

Exhibit 1: Green Platform business MODEL VersuS OTHER PLAYERS

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|  | **Green platform** | **Other platforms** | **Physical recruiting agent** |
| **Revenue model** | Contingent fixed fee  (JPY 300,000–900,000 in 2019, depending on region) | Advertising fee | Contingent  variable fee  (*x* % of salary) |
| **Administration cost** | Low  (Atrae replaced physical agents with online platform) | Low | High  (due to recruiting agents’ labour costs) |

Note: JPY = ¥ = Japanese yen; JPY 104.85 = USD 1.00 on January 2, 2014.

Source: Company documents.

Exhibit 2: Number of companies established in Japan and Percentage Change (2009–2014)

Note: No. = Number.

Source: Compiled by the case authors with data from Tokyo Shoko Research Ltd., “Trends of New Corporations Nationwide Over the Last 5 Years (2009–2013)” [in Japanese], press release, September 8, 2014, accessed April 1, 2021, www.tsr-net.co.jp/news/analysis/20140908\_13.html; and Tokyo Shoko Research Ltd., “2019 National New Corporation Trends Survey” [in Japanese], press release, May 29, 2020, accessed April 1, 2021, www.tsr-net.co.jp/news/analysis/20200529\_02.html.

Exhibit 3: Atrae Inc. Finances (2008–2014, in JPY MILLION)

Note: JPY = ¥ = Japanese yen; JPY 104.85 = USD 1.00 on January 2, 2014.

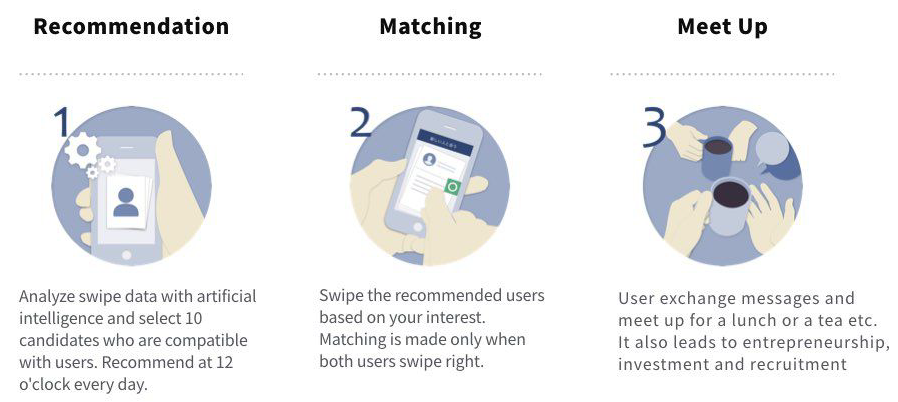
Source: Company documents.

Exhibit 4: The Atrae Inc. Standard

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| **Atrae is me** | We all hold a strong sense of ownership toward running the company. Each of us makes choices that weave the best future for Atrae. |
| **Where passions**  **meet goals** | You have your passions; Atrae has its goals. We believe that combining those and leveraging that common ground is the best way forward. |
| **Pursue the things you believe in** | Everyone gives their best toward a goal that they believe in. That drive is what allows Atrae to impact people’s lives and has become the engine of Atrae’s growth. We don’t settle. |
| **Integrity first** | We treat everyone— clients, users, stockholders, and even janitors— like we would treat our friends. Be your best self and do the right thing regardless of circumstance. |
| **Build mutual trust** | Trust is the essence of Atrae. We act in good faith to build strong relationships that let us realize our vision. |

Source: Company documents.

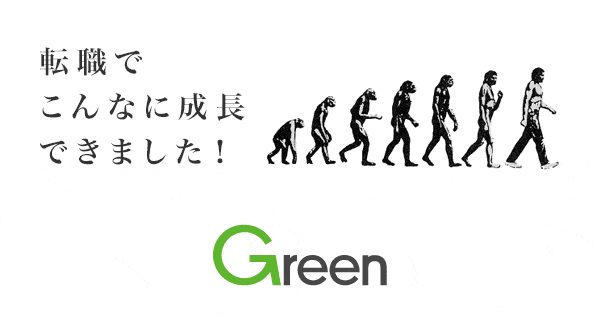
Exhibit 5: Business model of yenta, a professional networking app



Note: app = digital mobile application.

Source: Company documents.

Exhibit 6: Examples of Online Advertisement for Green Platform



“Damn, I will change my job!” “I could grow so much by changing jobs.”

Source: Company documents.

1. Mohammad Ala and William P. Cordeiro, “Can We Learn Management Techniques from the Japanese Ringi Process?,” *Business Forum* 24, no. 1–2 (1999): 22. [↑](#footnote-ref-1)