

# Sustainable Management Practices of Japanese Companies in Pre-War Period from the Perspective of SDGs and ESG 2 : Tsurukichi Hatano : Regeneration of Community Through Innovation of Conventional Industries

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## **Sustainable Management Practices of Japanese Companies in Pre-War Period from the Perspective of SDGs and ESG**

### **2. Tsurukichi Hatano: Regeneration of Community Through Innovation of Conventional Industries**

**Masaatsu Takehara and Naoya Hasegawa**



(Source) Ayabe City Tourism Association

## 1. Early days

The company Gunze Yarn was established in Ayabe City, located in the northern part of Kyoto Prefecture. Ayabe, a mountainous area with a population of about 40,000, was not a good location for fostering new industries. However, in such a severe environment, Tsurukichi Hatano built the foundation for the development of Gunze Yarn. Hatano managed Gunze Yarn aiming at enriching the lives of his company employees and the people of the local community both physically and mentally and led Gunze Yarn to become one of Japan's leading yarn manufacturers<sup>1</sup>.

In 1858, Tsurukichi was born, the second son of the Umuro family. According to the taxpayer ranking in 1887, the Umuro family was 11th place in Kyoto Prefecture and 1st place in the Ayabe and Fukuchiyama area. At the age of seven, Tsurukichi was adopted by the Hatano family. The adoption was based on the premise that he would marry Hana, the only daughter of the Hatano family.

When Tsurukichi was adopted, the Hatano family's luck was in decline and also his wealthy parents were hit by financial crisis and went bankrupt. The life environment surrounding Tsurukichi changed completely due to the bankruptcy of his parents and the decline of his adoptive family. For these reasons, he led a depressed time in his younger days. His adoptive mother and adoptive grandmother passed away one after another, and only the 15-year-old Tsurukichi and the 13-year-old Hana were left behind in the Hatano family. Tsurukichi did not have a regular job, and the two survived by selling the land of the Hatano family.

When Tsurukichi Hatano became 17 years old, he moved to Kyoto alone. Giving him an opportunity to study in Kyoto was a condition of his adoption into the Hatano family. Later, he returned to Ayabe and married Hana, however, he returned to Kyoto, leaving his new wife in his hometown.

Tsurukichi's life in Kyoto lasted for seven years. He not only exhausted all of his family's property, but also accumulated a huge debt of 1,000 yen. Later, when he joined Christianity, he said he was like the "Prodigal Son" who appeared in the writings of Luke in the New Testament.

In Kyoto, Tsurukichi wrote an educational book called "Keimou-Houteishiki" (literally, "the Enlightenment Equation") and opened a private school called "Suri-Tankyu-Juku" (literally, School for Mathematical Exploration). However, he failed to succeed in this field of study and as a result experienced uneasy days. At the same time, he made a youthful mistake of becoming infected with syphilis. Being at a loss, he decided to return to his hometown of Ayabe.

Tsurukichi's wife, Hana, was a kind-hearted woman, and while he lived in Kyoto, he often asked Hana to pay his living expenses. She did not complain about anything and continued to send him the money she earned by selling her family's land.

Tsurukichi, who returned home in disappointment in 1881, became a substitute teacher at an elementary school through the introduction of an acquaintance. Although he did not have a formal teacher's license, he maintained a good reputation among the students, and his teacher's life lasted for more than four years. These four years were an important time for Tsurukichi. Through his students, he was able to learn more about the farmers and their situations. Knowing how the poor lived, he began to think about the problems the community faced.

By starting a new life as an elementary school teacher, Tsurukichi Hatano's way of life gradually changed. Because of his previous selfish behavior, when he returned home, local people often looked at him coldly. However, as he changed his way of life, the local people gradually began to trust him. Later, Hatano became deeply involved with the local people through the silk industry.

## 2. The road to entrepreneur

### 2.1 Encounter with the silk industry

In Ayabe in the Meiji period (1868-1912), sericulture was widespread as a farmer's secondary business. During the end of the Edo period, the Ayabe-han(domain) was advised by Nobuhiro Sato, a renowned farmer who worked on agriculture and rural

reform, to switch its agriculture to the cultivation of commercial crops. Ayabe accepted Sato's recommendation and promptly encouraged their farmers to cultivate commercial crops. After attempts to produce cotton, tea, tobacco, etc., they found sericulture (cocoons) to be the most suitable for the land of Ayabe. Thus, the sericulture industry developed as a local industry.

The sericulture farmers in those days did not have the idea of cooperating with each other. Consequently, wholesalers took advantage of the farmers who lacked a sense of solidarity with each other and knew little of cocoon price. The wholesalers skillfully persuaded the farmers to reduce the price of cocoons. Even so, the sericulture farmers did not work together to improve the quality of cocoons; they simply contented themselves with their status quo.

Tsurukichi Hatano saw with his own eyes the farmers who produced cocoons using traditional methods without showing any interest in cocoon distribution systems and selling prices. He looked at the problems of each individual sericulture farmer as structural problems of the local community. He was fully aware that the lack of cooperation between farmers resulted in a negative impact on the quality of the silk production industry in the Ayabe region.

In 1875, at the national exhibition of products held in Tokyo, the cocoons and raw silk exhibited by Ayabe farmers were evaluated as the worst quality products. The following year, Hatano was appointed as the head of the Silk Industry Association in his region (Ikaruga-gun) and started to work on community reform through sericulture business.

## 2.2 Activities as the head of the Silk Industry Association

An encounter with Kazusuke Umehara, who was operating a silk thread business in Ayabe, opened the path for Hatano as the head of the Silk Industry Association. When the Ikaruga-gun Silk Industry Association was established, Umehara recommended Hatano to become the head. Since the Silk Industry Association handled raw silk, a valuable export item, Umehara thought Hatano would be appropriate for the position as he could speak English.

In later years, Umehara said, "I was so fortunate to meet a tremendous talent." This tremendous talent was Hatano. Umehara's words indicate that the recommendation of Hatano to become the head of the trade association led to the establishment of the company Gunze Yarn and also the benefit of local people. The encounter with Umehara opened a new way for Hatano as an entrepreneur.

Looking back on Hatano's activities as the head of the trade association, the biggest mission for him was to improve the quality of the cocoons which had been criticized as the worst quality. To achieve this mission, he thought two elements were important; technological innovation and human resource development.

He dispatched people to Gunma Prefecture, an advanced area of sericulture, to investigate production methods and advanced technologies. Through this investigation, Hatano learned that Gunma's silk thread quality was supported by advanced technology and Christianity. It is needless to say that the introduction of advanced technology is important for quality improvement, however, how did Christianity relate to quality improvement?

In those days in Japan, the silk industry was prosperous in Gunma Prefecture and a large number of foreign residents, who were involved in the raw silk export business, lived there. As a result, Christianity had taken root in Gunma from early times, and many of Gunma's leading silk thread traders were Christians who practiced their faith in business management. For example, at that time, it was common that female workers at a silk production factory were called "Joko" (literally, factory girls), however, at a factory whose manager became Christian, they were called "craft women." There was a note of contempt in the name "Joko" in Japanese. However, entrepreneurs influenced by Christianity valued the personality of female workers by calling them "Kajo" (craft women). In other words, Christian altruism and humanitarianism created a management philosophy whereby cherishing workers led to the companies' prosperity. This management view had a great influence on Tsurukichi Hatano's life.

Why do companies need to value human resources in order to improve the quality of their products? In Japan, quality improvement campaigns centering on QC (Quality Control) circles were actively conducted during the period of high economic

growth. This was because, even if advanced technologies were introduced, products quality improvement could not be realized without employees' awareness and capabilities. The reason behind the success of the QC movement in Japan was the existence of highly motivated workers. The voluntary actions of employees with high morals and motivation were the driving force for quality improvement. It can be said that the companies' commitment to cherish their employees and also education that cultivated high professional ethics and spontaneity enabled those quality improvements.

Hatano began his reform with the mindset of cocoon farmers who were reluctant to work voluntarily. He thought that the best way to improve the quality of cocoons was to improve the farmers' mindset first and then to acquire advanced technology.

### 3. Birth of the company Gunze Yarn

#### 3.1 From association to company

Working on expanding the common interests of the local community as the head of the Silk Industry Association, Hatano came to think that the association needed to be incorporated to further develop local industry.

However, the people in the area were hesitant, and did not understand his vision.

Figure 1



Masana Maeda

At such a time, he had the chance to listen to a speech of Masana Maeda, the President of the Japan Business Association, and he was very impressed. Maeda was a person who served as the Vice Minister of Agriculture and Commerce, and he had the idea that nurturing traditional industries would lead to development of a country with competitive industry and a strong military.

Maeda insisted on the following proposal: “Just as the government sets “Koku-ze” (national policy), each prefecture should set “Fuken-ze”(prefecture policy), each county should set “Gun-ze (county policy), and each town and village should set “Cho-son-ze”(town and village policy)<sup>2</sup>. And then, integrating these policies together, we should encourage domestic production and promote trade. “

Figure 2



Gunze Yarn head office

Hatano sympathized with Maeda's philosophy of nurturing industry by setting the county policy (named in Japanese “Gunze”). The term Gunze later became the company name of Gunze Yarn. The company name included the meaning of bringing together the power of local people and aiming for the development of local communities.

In 1890, the general meeting for establishing the company Gunze Yarn was held, and Hatano's brother, Kaemon Hamuro, became the president. Hatano himself took office as a director and had the executive power of managing the company. The new company started with capital of 98,000 yen, 20 regular employees and 200 workers.

We can find a characteristic of Gunze Yarn in its shareholder composition. A large number of Gunze Yarn's shareholders had just one share, and they accounted for approximately 37% (279 people) of all shareholders at the time of its establishment. Those shareholders with just one share were sericulture farmers, and this unique shareholder composition reflected Hatano's strategic intention. Shareholders had the right to receive dividends as the owners of the company. In other words, the profits of Gunze Yarn were returned to the local sericulture farmers in the form of stock dividends. Hatano aimed at making the profits of Gunze Yarn a common benefit for the local community and enriching people's lives. In order to realize such a philosophy, he intentionally made such a shareholder composition, and he clearly denied the idea that only the wealthy would monopolize profits.

Looking at the financial performance of Gunze Yarn, the company recorded a deficit of 6,200 yen in the first year. However, from the second year, the company achieved a single-year profit, and in the third year it paid a 10% dividend. In the 4th year, the company recorded a profit of 24,000 yen and paid a 40% dividend. From this year, Gunze Yarn started business with Mitsui & Co., a major trading company. Gunze Yarn continued to perform well, and it developed into the second largest yarn manufacturer

in Japan, following Katakura Yarn during the pre-war period.

Table 1 Distribution of shareholders in Gunze Yarn (from the 4th business report)



(Source) Hiroshi Shikata [1997] "Yuza-no-utsuwa" page 128, the Ayabe Civic Newspaper (Author revised)

### 3.2 Efforts to improve quality

Tsurukichi Hatano took strong actions to fundamentally reform the trading method of cocoons in order to improve quality, a long-standing issue. Until then, a common trading method was sample trading. The sericulture farmers picked up cocoons of excellent quality from the cocoons they produced and provided them as a sample. Then, the wholesalers appraised the sample and determined the grades and prices, a kind of auction method. In sample trading, the wholesaler collated the delivered products with the sample and purchased only the cocoons which passed the test.

However, the problem of sample trading was that there was a big disparity in the quality of the sample and cocoons actually delivered. The rate of delivered products which successfully passed the test was only 10 to 20%, and the rest of cocoons were all wasted as defective products. Moreover, it took a tremendous amount of time to check the delivered cocoons one by one with the sample.

Even if the farmers produced bad cocoons, if they deceived buyers, they could sell those bad cocoons at the price of the sample. As these bad practices were common, farmers did not make efforts to improve the quality of the cocoons.

Hatano thought that sample trading hindered the improvement of cocoon quality, and he introduced a new trading method, "Seiryō-trading" (literally, "right amount trading"). In this right amount trading, trade associations and wholesalers signed a contract in advance, and the cocoons that sericulture farmers produced were delivered in a unit of a trade association. The price was determined after cocoons were processed into yarns and their quality was evaluated by a scientific method. Hatano introduced the rational method of determining the price of the cocoons after assessing their qualities.

The introduction of this method enabled the setting of cocoon prices to be based on their qualities, not by bargaining or market conditions. In addition, it had the effect of informing the public about the quality of the products of Gunze Yarn.

In right amount trading, a contract is made on a village basis. Therefore, individual sericulture farmers were required to make efforts to produce high-quality cocoons. When poor quality cocoons were mixed, they made bad yarns that broke immediately. Thus, sericulture farmers came to have a strong sense of responsibility for quality improvement. The introduction of this right amount trading improved the quality of cocoons dramatically.

### 3.3 A school for factories

Gunze Yarn also concentrated resources on the education of their employees, and it was said to be a school for a factory. Hatano thought that the key to the quality improvement of cocoon products was both the reformation of sericulture farmers' mindset and also the moral improvement of female workers at the factory (they were called craftswomen in Gunze Yarn). In other words, he was aiming at improving the quality of Gunze's products at both stages of production of raw material and final products.

Hatano is said to have made the following comments to female workers working for Gunze Yarn: "If your heart is pure, you can make a glossy yarn. If your heart is honest, you can make homogeneous yarn. If your mind is gentle, you can make a jointless yarn. If you are always careful, you can make a yarn that is unbreakable. If you have nothing to be ashamed of, you can make a

Figure 3



Inside Gunze Yarn Factory

strong yarn." Thus, he thought that the improvement of morals and motivations of female workers were indispensable for the quality improvement of products.

Hatano thought that creating an environment in which female workers were willing to work was the first step in producing quality products. Instead of treating female workers as consumables, he tried to polish their abilities and personalities with great affection. He opened a night school for female workers from the following year of the foundation of the company. The contents of the lectures were concentrated on general education that

women in those days needed to acquire, such as morality, reading, arithmetic and sewing. In 1908, he established an education department and Gunze Women's Society within the company to further improve employee education. Furthermore, in 1913, a teaching course was set up in the education department, and graduates of the teaching course were dispatched to each factory as teachers. Gunze Yarn was said to be "a factory if we look it from the front, but it is actually a school."

At that time, besides Gunze Yarn, there were only two other companies, Kurashiki Spinning and Kanebo Spinning, which invested in employee education. The textile industry in those days overworked female workers with low wages and long working hours, and the health of many female workers was harmed due to poor working environments. It seems that female workers realized that working for Tsurukichi Hatano led to their happiness. Thus, the high motivation and morals of female workers at Gunze Yarn became the driving force for producing high-quality products.

## 4. Creating corporate value through mission-oriented management

### 4.1 Tsurukichi Hatano's view of religion and management philosophy

Hatano loved the local people and his employees and focused on realizing moral innovation through education. We can see the influence of both Christianity and also the thought of "Hotoku" (moral requital) as the background of his management philosophy.

When Tsurukichi Hatano returned to Ayabe from Kyoto, he met a person named Keizo Tanaka, who was the first Christian in Ayabe. Hatano learned two things from Tanaka. One was knowledge about sericulture methods. There were two types of sericulture methods: "tensan" method and "kasan" method. The former is a method of keeping silkworms outdoors (wild silkworm), and the latter is a method to raise silkworms indoors (domesticated silkworm). Tanaka insisted on the efficiency of the tensan method, but Hatano was convinced of the superiority of the kasan method from the viewpoint of safety and quality improvement.

Secondly, he met Christianity through Tanaka. Hatano had learned that there were companies in Gunma Prefecture which treated female workers decently, and the reason was that many executives of those companies became Christian. Through Tanaka, Hatano began to accept the teachings of Christianity.

Another element that formed Hatano's management view is Hotoku thought. Hotoku thought, which was advocated by



Sontoku Ninomiya at the end of the Edo period, was a management philosophy that aimed at uniting morality and economy, based on the diligence of individuals. Hatano's management philosophy and business spirit were born from the fusion of Christian altruism and the professional ethics of Hotoku thought.

Adding local cocoon farmers to the shareholders of Gunze Yarn was a manifestation of Hatano's management philosophy that Gunze Yarn was a common property of the local community. This management philosophy was born from the recognition of cherishing collaboration with all stakeholders surrounding the company. Gunze's efforts can be said to be ahead of SDGs Goal 17 "Achieving goals through partnerships".

Figure 4



Zenjiro Yasuda

There is an anecdote that shows Tsurukichi Hatano's character. One day, Zenjiro Yasuda, the founder of Yasuda Zaibatsu, one of the major financial conglomerates in those days in Japan, visited Hatano. At that time, the main bank of Gunze Yarn was Hyakusanju Bank (The 130<sup>th</sup> Bank), however, the bank went bankrupt during the Russo-Japanese War (1904-05). It was Yasuda Bank, (this bank later became the current Mizuho Bank, one of three Japanese "Mega Banks") led by Zenjiro Yasuda, which took over the business of the 130<sup>th</sup> Bank. Yasuda went to Ayabe to meet and evaluate Hatano, the manager of Gunze Yarn, because the 130<sup>th</sup> Bank had provided a large loan to Gunze Yarn. When Yasuda visited the company, Hatano devoted himself to weeding in a poor cotton kimono. Not knowing the man was Hatano, Yasuda asked him for the president. After a while, the man who was weeding appeared again in front of Yasuda, saying he was the president of Gunze. Looking at Hatano,

Yasuda said to him, "I understand your company and your spirit well. You don't have to worry about financing. I, Yasuda support you." and he went home. Probably, Yasuda immediately understood the qualities of Hatano as an entrepreneur and the company's management philosophy from his appearance.

#### 4.2 Quality recognized by the world

In 1900, at the World Exposition held in Paris, the products of Gunze Yarn won a gold award. This was the moment that Hatano's many years of efforts bore fruit and it was one of the prime times in his life.

The following year, Hatano became the president of Gunze Yarn. He succeeded in raising a product once criticized as "the poorest quality product" to world-class quality in just 25 years after he became the head of the Silk Trade Association.

A major U.S. trading company, Skinner, found that there was a particularly good quality of raw silk imported from Japan. That product was made by Gunze Yarn, and Skinner asked Gunze Yarn for the right to sell their products. In those days, the biggest demand in the United States was for fine thread used in women's stockings. Chemical fibers, such as nylon were not developed, so silk thread was used for stockings. Fine thread was used for stockings and handkerchiefs, but the quality of the fine thread produced by Gunze Yarn was much better in quality.

In Japan's domestic silk market, Gunze Yarn was second in the industry after Katakura Yarn. However, in the category of export to overseas, Gunze Yarn exceeded Katakura Yarn. Successful development of the highest quality products can be attributed to Hatano's management philosophy that fully utilized human capital and social capital.

#### 5. Conclusion

On February 23, 1918, Tsurukichi Hatano fell down with a cerebral hemorrhage during a lecture at a local veterans association and passed away. He was 60 years old. After Hatano's death, his wife Hana was also baptized as a Christian and lived a simple life until she passed away at the age of 96 in 1957.

Hatano's life was dedicated to realizing the happiness of both his employees and people in the community. He boldly challenged management issues that included mutually contradictory elements such as quality improvement, profit making,

customer satisfaction, employees' fulfillments, and integration with local communities. As Hatano denied pursuing his self-interest and continued his altruistic spirits, he could solve these challenges and nurture Gunze Yarn into a large company. By making clear his mission as a manager, he continued his efforts to gain support from a wide range of Gunze's stakeholders, including shareholders, customers, employees, and local communities. He founded Gunze Yarn based on the traditional silk industry, while also aiming at revitalizing the local community. By adding sericulture farmers as shareholders, he tried to generate a sense of unity between Gunze Yarn and the local community. He also enhanced employee motivation and morals by enriching employee education. As a result, he and his company succeeded in producing products that achieved internationally recognized quality. The foreign currency earned from the business of traditional industries, such as Gunze Yarn, became the foundation for the growth of Japan's modern industry.

It was Hatano's mission-oriented management, based on the spirit of altruism, that supported the growth of Gunze Yarn. His management philosophy that companies exist for their stakeholders succeeded in raising the morals and motivation of local people and employees and producing high-quality products with competitive advantage.

Hatano led Gunze Yarn to a value-creating company by integrating the company's direction and the local community's sense of values and knowledge. Finally, we should not forget his wife Hana, who continued to support Hatano with altruistic spirit throughout her life.

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<sup>1</sup> Gunze Yarn is currently Gunze Limited. Fiscal year 2019's annual sales are ¥150 billion and net profits are ¥4 billion.

<sup>2</sup> Municipalities in Japan are divided into prefecture, cities, town and village.



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