

# Sumitomo-style Leadership

By Naoki Kojima

The three major prewar *zaibatsu* (Mitsui, Mitsubishi and Sumitomo) each had very different management styles. As noted in the article on Iwasaki Yataro in the May/June *Journal*, Mitsubishi has a long history of top-down control by the owner. By contrast, the Mitsui family was involved in broad policy decisions but left day-to-day management to its appointed presidents—men such as Masuda Takashi, Nakamigawa Hikojiro and Dan Takuma. At Sumitomo, this hands-off style was carried even further, and the nominal head of the house did not even attend board meetings. Sumitomo's was a system of "reigning but not ruling"—a strict delineation between capital and management.

Although there was a set of family commandments, they were formulated very early in Sumitomo's history and may be thought of not so much as specific orders but as broad principles—a constitution, if you will, of moral injunctions to be followed—and the presidents were given broad latitude within these precepts.

## Early beginnings

Predating the Rothschilds by about 200 years, Sumitomo is said to be the world's oldest trading house. The Sumitomos got their start in commerce late in the 16th century as copper traders, and their house endured and prospered under shogunate protection throughout the two and a half centuries of Tokugawa rule. By the time of the Meiji Restoration in 1868, Sumitomo had copper mines throughout the length and breadth of Japan, primary among them the Besshi mine in Shikoku, which was a major money-earner because of its high-grade ore. While the revolution that brought down the shogunate was also a crisis for Sumitomo, decisive people who had cut their teeth at the Besshi mine and other field operations saved the company from sharing the shogunate's fate.

Among them was Hirose Saihei (1828–1914), the first great Sumitomo leader. Born in Goshu (now Shiga Prefecture) in 1828 as the second son of the doctor Kitawaki Risaburo, Hirose moved to Shikoku in 1836 with his uncle, who was posted to

the Besshi mine, and started working in the Besshi mine accounting office two years later. He was adopted at the age of 28 by Hirose Giemon, general manager for Sumitomo in Edo, and was tapped to be the boss of the entire Besshi mine 10 years later (1865). After he retired from Sumitomo, he published a moving and literary two-volume autobiography and authored a book of classical Chinese poetry. He was the first of many men combining business and literary talents who were to lead Sumitomo.

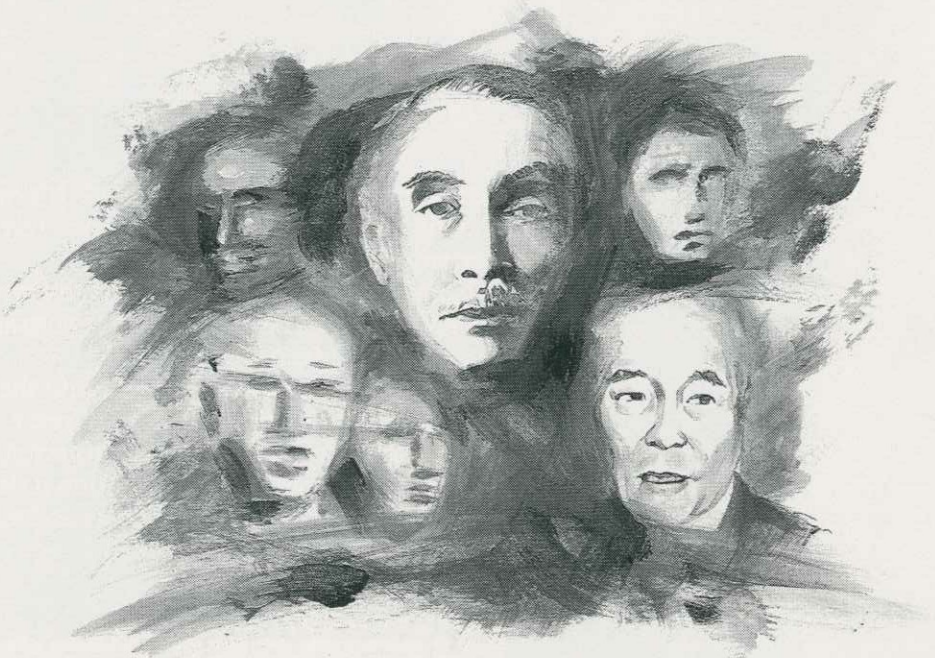
Hirose's philosophy was basically grounded in the Confucian tradition. He was a very ethically minded executive, and his strong Confucian bent was one of the major factors shaping the Sumitomo spirit. To cite but one example, on January 5, 1870, the Sumitomo house held its traditional New Year's celebration for company executives. Having come to Osaka from Besshi for the celebration, Hirose knelt before the head of the household, Sumitomo Kichizaemon Tomochika, and said, "I salute you on the start of another year. Let us hope it will be better than last." Hearing this, the assembled leaders complained of Hirose's rudeness and uncivility. Hirose angrily retorted, "What do you mean rude and uncivil? If this year is just the same as last—if we just

go along as we have been in these times of turmoil and change—Sumitomo is on the road to ruin. We have to be constantly revamping our thinking. Out with the old. In with the new. We have to be flexible enough to turn changes to our advantage, for only then will we be blessed with prosperity. If we just sit back and watch the world go by, events will overtake us like they did the old nobility. Who among you thinks we can afford to sit here in complacent self-congratulation?"

At the time, Hirose was only in his early 40s, yet he had traveled widely and seen the advances being made elsewhere, and he was most upset that the company's leaders did not seem to have any clear-cut policies for growth but were apparently content simply to muddle through. Happily for Sumitomo, Hirose prevailed, and his spirit has pervaded the organization ever since.

## The Sumitomo spirit

Another man who epitomizes this Sumitomo spirit is Kawada Jun (1882–1966). Rising to the rank of managing director of the Sumitomo, Ltd., holding company and widely favored to be the next president, Kawada said of himself, "I do not deserve the honor. Not only would



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it be bad for me personally, it would also be bad for Sumitomo." So saying, he retired to make room for someone else. Kawada was a man of culture, a man of business and a prolific writer with poetry anthologies, research papers and many other works to his credit. Among them are two retrospective works about Sumitomo published in 1951 and 1953. Major histories of the Sumitomo *zaibatsu*, these are also invaluable reference guides to the way Sumitomo worked and the people who made it work.

This Sumitomo spirit was vividly demonstrated in what is known as the Siemens Case. The Siemens Case started in January 1914 with a *London Telegram* report alleging bribery, kickbacks and other irregularities in Siemens's sales to the Japanese navy. Because Sumitomo also had extensive dealings with the navy, it was one of many corporate targets of suspicion. Arriving in Osaka from Tokyo, investigators went over Sumitomo's books, correspondence and other documents with a fine-tooth comb, but they found nothing unaccounted for. Sumitomo was clean.

In his memoirs, Kawada mentions the fifth Sumitomo president, Yukawa Kan-kichi (1868-1931), in connection with the Siemens Case. At the time, Yukawa was on good terms with Vice Admiral Matsumoto Yawara, then chief of the Naval Technical Department and a man whom Kawada described as "a true gentleman—not the sort of person who would take a bribe. He made a major contribution to the development of Japanese industry, and Sumitomo is one of the many companies that has benefited from Matsumoto's dedication. It is sad that he should be scorned and forgotten."

After Matsumoto was sentenced to prison, Yukawa dipped into his own private funds to help Matsumoto's family make ends meet. This was not some furtive under-the-table payoff but was an expression of Yukawa's respect for Matsumoto. Such anonymous generosity was typical of Yukawa, who also paid to have a grand *torii* built at a new shrine near his hometown of Shingu in Wakayama Prefecture. Visiting the shrine, Kawada noted that Yukawa's name was nowhere to be found on the *torii* or nearby. Yukawa was truly someone who did his good deeds quietly and inconspicuously.

Referring to the Siemens Case in his memoirs, Kawada wrote, "Everybody knows that Sumitomo does not resort to bribery and other underhanded tactics." He speaks confidently, as though there should never have been any doubt in

anyone's mind, and this confidence is substantiated by Sumitomo practice at the time.

As Kawada writes about entertaining customers: "Even in entertaining government officials, we were very circumspect. We did everything most respectfully and followed protocol, but we never went beyond the bounds of propriety. In fact, there were many people who said that they were glad to get our invitations but found our dinners very boring.

"The term *shayo-zoku* has recently come into widespread use to refer to people who entertain lavishly and have a good time every night on their expense accounts. This was not the way we did things at Sumitomo. Although we sometimes entertained in Osaka, we only put the more formal business dinner on the expense account. If we decided to go out drinking afterward, even if it was with a client, we paid for this out of our own pockets. Every company executive had a budget of some sort for entertainment, but we would have been ashamed to spend this on ourselves." While this was obviously a device to keep people from entertaining friends and conducting private business on the company account, it marked Sumitomo as clearly different from most other companies, such as Mitsui.

Comparing the two, it was rumored that the head of the Mitsui Bussan Osaka Office earned more than the president of Sumitomo. Kawada wrote, "No matter where I look, Sumitomo does not have any rich people. Everyone is upright—surprisingly so for businessmen." Kawada postulates two causes for this situation: first that Sumitomo did not spend money it did not have and second that the third president, Suzuki Masaya (1861-1922), was a strong believer in not paying people very much.

As Suzuki never tired of telling people, "the nation's good must come first. Only then can we think about ourselves." He was a man with a strong Confucian view of society. All of the Sumitomo business lines were solid and unglamorous—fields such as mining, smelting, metalworking, machinery, banking and warehousing. As Suzuki recalled, "All of these were to the nation's benefit, and at the same time they were why the Sumitomo *zaibatsu* grew so powerful. Yet they were not very profitable. We invested so heavily in expanding our operations in the early 20th century that there was never very much left over at the end of the year. So even if we wanted to be generous to our employees, it was impossible to spend money we did not have."

Suzuki was called stingy, tight-fisted and a disciple of the "don't pay them any more than you have to" school of management, but the fact is that he had an old man's aversion to entrusting people with a lot of money. At the same time, Suzuki believed in equalizing pay schedules as much as possible. Sumitomo was not a company to make conspicuous material distinctions between entry-level employees and top executives. As Kawada has written, "This was a laudable social policy, and it enabled Sumitomo to win employee loyalty even though it did not pay them very much." It can easily be understood how this frugal company's expense accounts were shoestring affairs.

## A shared tradition

Companies all seem very much alike when everything is going well. It is only when a company runs into trouble that its character shows. With the loss of World War II, the *zaibatsu* were dissolved. At the time, the Sumitomo president was Furuta Shunnosuke (1886-1953), who had taken over the presidency in April 1941. He was an engineer who had risen through the ranks to break the unspoken rule that people with engineering backgrounds could not become Sumitomo president.

Hearing the news of the surrender on August 15, 1945, Furuta convened a meeting of the directors from all Sumitomo companies that afternoon at 2:00 and instructed them, "Do not do anything that would reflect badly on Sumitomo. Stay calm, and do the right thing." At the same time, he delivered a short lecture on "what we have to do to ensure the stability of the house of Sumitomo and to be judged favorably by history." Even before the edict went out forbidding the use of the old *zaibatsu* names, Sumitomo instructed companies to drop the Sumitomo name. Without waiting to be purged, the top executives of the leading Sumitomo *zaibatsu* companies resigned their posts. This was not a tearful parting but a clear-eyed decision to do what clearly had to be done.

On January 2, 1946, Furuta issued the last set of instructions to the Sumitomo *zaibatsu*. In these instructions he said: "Each company will now have to develop and grow on its own as an independent industrial concern. And this will also mean development for Sumitomo." Today, the Sumitomo companies are bound together only by their shared tradition and the monthly meeting called Haku-sui-kai that has developed out of the presidents' meeting established in 1949. ●