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

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Ryoichiro Okada:
Aiming for Integration of Economy and Morality

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Ryoichiro Okada
(1839-1915)
(Source) Dai Nippon Hotokusha

Masaatsu Takehara, Naoya Hasegawa

Achievement of Ryoichiro Okada and related SDGs

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<th>Economy</th>
<th>Society</th>
<th>Governance</th>
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<td><em>Educational (Kihoku Gakusha/Kakegawa Nogakusha)</em>&lt;br&gt;<em>The first principal of prefectural Kakegawa Junior High School</em>&lt;br&gt;<em>Training entrepreneurs</em>&lt;br&gt;<em>Promotion of management based on Hotoku thought</em></td>
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1. Ryoichiro Okada's thoughts on morality

In 1839, Ryoichiro Okada was born in Kakegawa City, Shizuoka Prefecture, as the eldest son of Saheiji Okada. Father Saheiji educated Ryoichiro thoroughly since his childhood. In 1854, Okada's father made Ryoichiro an apprentice to Sontoku Ninomiya. His father ran Dai Nippon Hotokusha, a nationwide organization to spread Ninomiya's "Hotoku Thought". Since Sontoku emphasized practical science, Ryoichiro worked hard on agriculture every day and experienced the practice of economic recovery in rural areas. At the same time, he learned the Sontoku’s theoretical system by copying his books.

In 1876, Ryoichiro became the second president of Dainippon Hotokusha succeeding his father. In his efforts to disseminate the philosophy of Hotoku thought, he focused on the “Suijo”¹. Okada stated that the knowledge should be given to those who lack knowledge and a surplus of one’s own resources should be given to those who were economically difficult because the spirit of “Suijo” (literally means concession) is a precious power given only to humanity.

Citing a case of Fujisaburo Suzuki, who was a leading expert in Japan's sugar business, Okada pointed out that the practice of “Suijo” was important for the success of the business. Looking back on the scandals of modern companies in recent years, many companies deceived society because they prioritized corporate profits. If we interpret modern CSR (Corporate Social Responsibility) based on Okada's philosophy, CSR is the practice of “Suijo” -- a concession to stakeholders -- and its result will lead to companies' profits.

In Japan, after the Meiji Restoration, the capitalist economy rapidly penetrated and industrialization advanced due to the industrial development policy. Okada’s philosophy included “Kinken” (working hard and reducing unnecessary expenses), “Bundo” (limiting the spending within a predetermined
range of income), “Suijo” (leaving financial resources for future generations' needs). And at the same time, he emphasized economic independence of the individual. When he became the president of Omikoku Hotokusha, Okada showed three major principles: “Rittoku”, “Chifu”, and “Kaichi”. “Rittoku” means morality, and “Chifu” is the economy. The unity between morality and economy is an important teaching of Okada’s master Sontoku Ninomiya. Okada advocated “Zaihon-Tokumatsu” (economy first, morality later) principle and argued that economic independence is important for the practice of virtue. In addition to morality and economy, Okada repeatedly emphasized the importance of education (“Kaichi” in his words).

In fact, during the Meiji period (1868-1912), funds produced through people’s “Kinken” (hard work) and “Suijo” (conceded or transferred) were spent on creating new industries. However, Okada thought unless this hard work and transfer were backed by morality, economic activity would end up just making money. Economy and morality cannot be integrated forever. Recognizing that a large amount of money was required for developing new industries in Japan in Meiji period, Okada had a different mindset from private banks that focused only on commercial finance.

Okada presented “Zaihon-Tokumatsu principles” in his book “Hokoku-Fukoku Theory”. “Zaihon-Tokumatsu principles” was an idea that an economic foundation was necessary to practice social responsibility. Some of the disciples of Sontoku Ninomiya criticized Okada's Zaihon-Tokumatsu principles. However, Okada understood the need for rapid development of capitalist economy and industrial development in Japan and emphasized economic independence in his activities of disseminating Hotoku thought.

Okada accepted the social change after the Meiji Restoration and aimed at the fusion of the capitalist economic system and Hotoku thought. Okada created the “Zaihon-Tokumatsu principles” from this idea. By adding new values to Ninomiya Sontoku's philosophy of Hotoku thought in response to changes in civil society, Okada's “Zaihon-Tokumatsu principles” permeated into the Enshu region (a region centered on Hamamatsu City, Shizuoka Prefecture) and became a philosophical backbone that supported entrepreneurial activities in that region.

Regarding Kaichi (education), one of Okada’s three remaining principles, he emphasized the need to acquire knowledge at all ages, and made education a major factor in reaching wealth (economy).

Okada focused on acquiring advanced Western knowledges at the school he founded (Kihoku Gakusha), while maintaining the spirit of Sontoku Ninomiya’s practical science. The Meiji Restoration greatly changed Japanese society and he witnessed the economic power of other countries. Therefore, while emphasizing agricultural production, Okada realized that if Japan adhered to the traditional economic doctrine of promoting agriculture (called physiocracy), it could not be independent politically or economically.

In the Enshu region, the number of part-time farmers increased after the Meiji Restoration. The
development of commerce and industry progressed mainly in Hamamatsu area, and farmers started to engage in commerce and industry in addition to agriculture. Table 1 shows the change in the ratio of full-time farmers and part-time farmers. Since the middle of the Meiji era, part-time farmers accounted for about 40%. Under such circumstances, Okada was gradually aiming for regional economic development centered on commerce and industry rather than an economy so reliant on agriculture.

Table 1 Ratio of full-time and part-time farmers

<table>
<thead>
<tr>
<th>Year</th>
<th>Full-time</th>
<th>Part-time</th>
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<tbody>
<tr>
<td>1884</td>
<td>60.3%</td>
<td>39.7%</td>
</tr>
<tr>
<td>1887</td>
<td>61.8%</td>
<td>38.2%</td>
</tr>
<tr>
<td>1892</td>
<td>54.4%</td>
<td>45.6%</td>
</tr>
<tr>
<td>1897</td>
<td>54.1%</td>
<td>45.9%</td>
</tr>
<tr>
<td>1902</td>
<td>63.4%</td>
<td>36.6%</td>
</tr>
<tr>
<td>1916</td>
<td>50.1%</td>
<td>49.9%</td>
</tr>
<tr>
<td>1923</td>
<td>47.6%</td>
<td>52.4%</td>
</tr>
</tbody>
</table>

Source: Hamamatsu Historic Site Survey Committee (1977) “Enshu Industrial and Cultural History” on page 473 (Authors revised)

Okada emphasized the idea that economic independence leads to moral practice. Okada's assertion of economic independence promoted the economic independence of small farmers at the beginning of his activities, and in the Meiji period, it developed into the nurturing of modern industries through banking.

The promotion of economic independence and industrial promotion policies based on Okada's philosophy of “Zaihon-Tokumatsu” had a major impact on the foundation of entrepreneurial activities in the Enshu region (current Shizuoka prefecture). After the Meiji Restoration, farmers who were liberated from feudal systems now had the ability to establish their own economic base by engaging not only in agriculture but also in commerce and industry.

Farmers and craftsmen increased their interest in entrepreneurial activities and awareness of participation in society through the philosophy of “Zaihon-Tokumatsu” and commercial and industrial projects which Okada promoted based on the Hotoku thought.

Hotoku thought cultivated professional ethics based on ingenuity in the farmers and made them aware that they could become a leading part for social change through corporate activities.

Examples of this can be seen in the activities of Sakichi Toyoda (founder of Toyota Motor Corporation) and Michio Suzuki (founder of Suzuki Motor Corporation), who produced automatic looms. Business activities in Enshu region were carried out mostly by farmers, carpenters and
Craftsmen, and few were from economically rich classes. They accurately understood users’ needs and worked on steady technological development, and finally succeeded in developing an innovative automatic loom machine. Toyoda and Suzuki did not monopolize the patents and utility models they acquired, but made them belong to their companies. The wealth generated from the accumulation of knowledge was reinvested in the next technological development. This is exactly the practice of “Suijo” (concession) that Okada explained.

The common qualities of entrepreneurs in Enshu region were (1) the emphasis on the development of high value-added products through innovation generated from self-help efforts and (2) the fulfillment of social responsibility through their business activities. Economic independence was a prerequisite for practicing virtue through business activities. They accepted self-sacrificing works toward economic independence, becoming social leaders through their success as entrepreneurs.

Hotoku thought Okada propagated was created in his quest for a socio-economic system that integrated Hotoku thought as capitalist economy rapidly penetrated Japan. The philosophy of “Zaihon-Tokumatsu” Okada advocated urged farmers and those involved in commerce and industry to have awareness as economic agents. Having those people recognize the social significance of economic activities in the process of promoting economic independence by working hard paved the way for people in Enshu area as entrepreneurs.

2. Acceptance of modern enlightenment thought

Okada's thought was greatly influenced by the Western enlightenment thought introduced in Japan in the early Meiji era. The people who influenced him were Masanao Nakamura and Amane Nishi, who were active as core members of Mei-rokusha, which was Japan's first modern academic society. After the Meiji Restoration, Fuchu Gakemonjo (school) and Numazu military academy were founded by former vassals of the Tokugawa Shogunate who moved to Shizuoka. Both Nishi and Nakamura were engaged in education for a short period of time. Nishi taught at Numazu military academy and Nakamura taught at Fuchu school.4

Nakamura translated two Western books into Japanese: "Self-Help; with Illustrations of Character and Conduct" by Samuel Smiles and "On Liberty" by John Stuart Mill. These two books had a great influence on the modernization of Japan. The Japanese translation of “Self-Help; with Illustrations of Character and Conduct” was used as a textbook at an elementary school in the Meiji period. Okada was introduced to modern Western thought through Nakamura's book. He also received direct guidance from Nakamura. Nakamura also made a statement that acknowledged Okada's activities to spread Hotoku thought.

Okada stated in his book, "Tanzan-Ronshu" as follows.

“I read Bentham's book and I was glad that there was something in common between utilitarianism
and Hotoku thought. Christianity teaches that “love your neighbor as you love yourself”. It is the same as the idea of “Suijo (concession)”. Bentham pursues theory and Hotoku pursues practice, but both shared the same essence⁴. Okada was strongly aware of the common elements of utilitarianism and the idea of Zaihon-Tokumatsu Philosophy, and confessed that he positively accepted utilitarianism.

In the United Kingdom, the industrial revolution developed capitalism and formed civil society. Utilitarianism in the United Kingdom was born behind a social change due to the industrial revolution. For capitalists who led the industrial revolution, the challenge was how to reconcile their own interests with those of others. Utilitarianism was a realist idea that tried to capture the position of capitalists positively by considering the well-being of individuals from the standpoint of society as a whole.

While John Stuart Mill acknowledged Bentham's principle of utilitarianism, he argued that the standard of good and bad of action was not the happiness of the individual performing the action, but the happiness of all the individuals involved. Mill found the ideal of utilitarianism in the Jesus' teaching of loving neighbors, "Let others do what I want and Love your neighbor as yourself." Utilitarianism requires actors to overcome selfishness. Okada stated that “Suijo” in Hotoku thought was nothing but the pursuit of altruistic happiness symbolized by the love of neighbors in Christianity.

The idea of utilitarianism was introduced to Japanese society through Samuel Smiles' “Self-Help; with Illustrations of Character and Conduct”. “Self-Help” was translated as a Japanese title “Saikoku Risshihen” by Masanao Nakamura. The book became the best-selling book with 1 million copies issued throughout the Meiji period.

The word “Heaven helps those who help themselves” instilled a spirit of self-reliance in people who lived in the Meiji period. Sakichi Toyoda, founder of Toyota Motor Corporation, was said to have been strongly influenced by Hotoku thought. His management philosophy had much in common with the philosophy of Samuel Smiles⁶.

“Self-Help” explained that the happiness of life would be realized by maximizing the happiness of the people of society through hard work, drawing on the numerous entrepreneurial activities that supported the industrial revolution. “Self-Help” showed the possibility of independence of farmers who had been repressed under the feudal system.

In the rapidly changing socio-economic system in Japan after the Meiji Restoration in 1868, Okada transformed the philosophy of Hotoku thought from traditional agricultural ethics to the management philosophy of modern industries centered on commerce and industry by incorporating utilitarianism into the interpretation of the Hotoku thought.

Nakamura denied measuring the value standard of action with a quantitative measure of the secular success of the actor. In other words, Nakamura, from the standpoint of utilitarianism advocated by Mill, emphasized the notion of the actor and argued that the achievement of qualitatively high spiritual well-being was important.
The attitude of seeking the standards of the right and wrong of the act from the point of view of the actor is also recognized in the Hotoku thought. Sontoku Ninomiya, the proponent of the Hotoku thought, made the following statement: “It is not the original purpose for people to hope to succeed in life by learning. If you learn and have your own abilities, you will naturally be enriched from the heaven. Never seek a social status by yourself.” Thus, it is considered that the philosophy of Nakamura and Ninomiya about self-help are very close.

Thoughts of Ninomiya and Okada and the thoughts shown in the “Self-Help” had a lot in common, and the spirit of self-help was widely accepted without resistance in the Enshu region where Hotoku thought had permeated.

As we described earlier, Hotoku thought greatly influenced the management philosophy of Sakichi Toyoda. Another entrepreneur who succeeded in incorporating Hotoku philosophy into business was Saburo Suzuki. Suzuki succeeded in the sugar production business. He was born in 1855 in the northern part of the Enshu region. At the age of 28, he developed a manufacturing method for rock sugar and established Japan Refined Sugar Co., Ltd. and Taiwan Sugar Co., Ltd. Suzuki was also known as an excellent inventor, earning 159 patents for his inventions.

Suzuki realized the effectiveness of Hotoku thought when applied to business. As a result, he put it into practice in the sugar production business and made a huge success.

Suzuki was a mediocre merchant who lived in mountain village, but he practiced corporate management based on Hotoku thought and expanded his business with the spirit of self-help. The Hotoku thought, which became popular for the relief of poor farmers, developed into a new entrepreneurial management philosophy with the success of Toyoda and Suzuki.

The Zaihon-Tokumatsu philosophy Okada proposed was influenced by utilitarianism and significantly expanded the traditional area of the Hotoku thought that remained within the framework of farmers' self-reliance. The Zaihon-Tokumatsu philosophy enabled Hotoku thought to link with modern industries.

3. Okada's activities as a social entrepreneur

3.1 Education business

Educational activities occupied an important position in Okada's activities. The core of Okada's educational activities in Kakegawa was Kihoku Gakusha (school). Kihoku School was a private school established in 1877 by Okada. “Kihoku” was name of area in China which was known for its production of fine horses. It implies Okada’s strong will to foster competent talents.

All the students at the Kihoku school were required to live in the dormitories and the school focused on English education with Hotoku thought as the foundation of its education. All the textbooks in foreign languages were ordered from overseas. There was an influence of utilitarianism behind the
school’s emphasis on English studies.

In the Naval Academy entrance examination conducted in 1885, thirteen students from Shizuoka Prefecture took the examination. The Naval Academy entrance examination was a one of the most prestigious and difficult examinations with an emphasis on English, and only two out of thirteen passed. The two who passed were from Kihoku school.7

Kihoku school had a curriculum centered on English studies and the study of Chinese classics. The following were main textbooks used in English studies8.

- Peter Parley “Universal History”
- George Payn Quackenbos, “Elementary History of The United States”
- Samuel Griswold, Goodrich, “A History of BRITAIN”
- Francis Wayland “The Elements of Political Economy”

At Kihoku school, there were about 20 students at the time of its opening and 50-60 students at its prime. In English classes, original books such as Western history and economics were used as textbooks. From school’s English-focused education policy, we can infer that Okada aimed at nurturing human resources who could adapt to drastically changing Japanese society after the Meiji Restoration while cherishing Hotoku thought. Okada developed educational activities at Kihoku school, keeping in mind the new positioning of Hotoku thought in a new capitalist economic society in Japan.

Recognizing the changes in society where the key industry in Japan was shifting from agriculture to commerce and industry, Okada focused on education centering English studies to develop leaders in the industry while using values of Hotoku thought as the educational philosophy.

Figure 2 Kihoku school

Source: Dai Nippon Hotokusha
3.2 Banking

The banking business in Japan began in 1874 at an asset loan office established by Okada. Recognizing the need for a financial institution to accumulate private capital and supply funds to promote the industry, he aimed to establish an asset loan facility. Okada established a semi-private asset lending office, and as a general manager (senior position above the president), he provided loans for the purpose of emergency response, relief for the poor, and reconstruction of devastated villages.

In 1893, when the bank ordinance was promulgated, the asset lending office had to be converted to a regular bank. As a result, the asset lending office was converted into an asset bank. This asset bank later became current Shizuoka Bank. *

Okada's purpose was to promote developing new industries in Japan through the transfer (“Suijo” in his words) of benevolent funds to make the ordinary people economically independent. This purpose came out of his strong awareness that there were technical gaps between Western countries and Japan and that in order for Japan to become independent, it was necessary to enhance its industrial and economic power.

Okada's aggressive activities of promoting industrial development during the modern industrial period were in line with the Meiji government's industrial policy, and that was one of the factors that led to the great development of the Hotoku thought he was promoting in the Meiji period.

Today, microfinance is attracting attention as a method for promoting economic independence of the poor. Microfinance is generally defined as “small-scale finance aimed at reducing poverty for the poor and low-income groups”9.

Founded by Dr. Muhammad Yunus in Bangladesh, Grameen Bank became an internationally recognized microfinance institution. Microfinance is an innovative financial mechanism that enables people in severe poverty to engage in private businesses, become economically independent by earning income and eventually get out of poverty.

Comparing Okada's banking business with microfinance, it can be evaluated that Okada's banking business was essentially an act of anticipating microfinance. Asset lending stations were based on the idea of giving away surplus funds to the local community and the next generation, that is, the concept of “Suijo” (means concede or transfer). The funds were sourced from hard work of employees of Okada’s Hotoku company. Okada first helped people get out of poverty through his banking business and provided the opportunity to become financially independent.

In the Meiji period, Shizuoka Prefecture had an extremely large number of banks and bank-like companies nationwide, of which the Enshu region accounted for 62.5% of Shizuoka Prefecture, with 115 banks10. In the Enshu region, because of the influence of Hotoku thought, farmers engaged in commercial agriculture such as tea and cotton, which had relatively higher cash value than rice. As a result, with the technical improvement and the development of the cotton fabric industry, there was a
high demand for financing. In addition, because the landowner class with funding capacity was relatively small in the region, small and medium landlords and merchants mutually provided funds to establish financial institutions\textsuperscript{11}.

3.3 Spinning industry

In 1883, Okada established the Enshu Futamata Spinning Company in Futamata, Toyota-gun, Shizuoka Prefecture (now Futamata-town, Tenryu-ku, Hamamatsu City). The company was established as one of the ten spinning companies that received support from the Meiji government\textsuperscript{12}. It had a small-scale spinning with 2,000 spindles using the waterpower of the Tenryu River\textsuperscript{13}.

Okada made the following statement regarding the industrial promotion:

“A person who starts a business in the industrial field must have the purpose of contributing to society, not for his own selfish demands. Failure to start a business is inherent, but there will be people who will succeed the company. Watts, Stevenson and Arkwright, who were the leaders of the industrial revolution, succeeded in greatly advancing the industry by inheriting and developing the technology and will of their predecessors”\textsuperscript{14}.

Okada stressed the social significance of entrepreneurial activities, and pointed out that for creating industries, it was indispensable for banks to provide financial support and develop human resources to be entrepreneurs. He explained this by showing the example of entrepreneurial activities during the industrial revolution in the UK.

The Enshu Futamata Spinning Company ceased to operate before fully achieving its objectives of self-reliance of the local economy and protection of the cotton-producing farmers. However, Okada's entrepreneurial activities raised the vocational awareness of farmers and opened the way to modern industries.

Okada actively promoted the Hotoku activities with the aim of realizing independence of the local economy by fostering local industries. This became a social movement and penetrated the Enshu region, producing entrepreneurs with a sense of social mission, mainly among farmers and craftsmen. This ultimately led to forming a foundation for fostering a modern industry centered on the cotton textile industry.

4. The modern significance of “Zaihon-Tokumatsu” thought

Looking at the actual state of entrepreneurship in Shizuoka Prefecture during the Meiji period, the Enshu region accounted for 42% of all the entrepreneurs in Shizuoka Prefecture\textsuperscript{15}. Shizuoka Research Institute(1992) pointed out that this region’s success in producing entrepreneurs was greatly influenced by business promotion activities and practical guidance through educational activities by Okada and other Hotoku activists\textsuperscript{16}. 

10
Regarding the relationship between regional characteristics and entrepreneurship, Nakagawa (1981) analyzed that all management entities are created by certain historical and social factors and do not exist independently of these historical or social factors.\textsuperscript{17}

Okada was an undoubtedly social entrepreneur who wanted to build a sustainable community in the wake of major changes in Japanese society. Okada's value as a social entrepreneur lay in building an infrastructure for a socio-economic system that created continuous solutions.

“Zaihon-Tokumatsu” principle that aimed at the integration of economy and morality formed a unique social and cultural temperament in the Enshu region. Even after Hotoku thought lost its social indoctrination power, it was handed down to the Enshu region as an ethical deep consciousness and fostered an entrepreneurial spirit with the color of M. Weber's "capitalism spirit".

Okada's “Zaihon-Tokumatsu” philosophy and social entrepreneurial activities were aimed at nurturing modern industries and utilizing moral values of Hotoku thought, in order to respond to the rapid development of capitalist economy in Japan after the Meiji Restoration. It was characterized by activities targeting a wide range of community members including farmers, merchants and craftsmen.

With the collapse of feudal society, people's behavior changed from organizational based to individual based, and competition became a new social order. As a result, in Japanese society during the Meiji period, success in life became a powerful ideology.

In contrast, Okada's philosophy cultivated values in the Enshu region that respected entrepreneurial activities with moral values and the acquisition of wealth as a result of their actions. Competition between companies for the purpose of creating social value was accepted, and various innovations were actually created. Examples of such competition between companies can be seen from the enormous number of patents and utility models in the textile industry in the Enshu region.

Okada succeeded in adapting to the new social values after the Meiji Restoration by adding utilitarian elements to the pre-modern philosophy of the Hotoku thought. The core of Okada's thought was virtue: human wealth and the prosperity of the nation were not the purpose of itself, but only as a result of fulfilling morality. On the other hand, on the premise that man's responsibility was to increase virtue through labor, he accepted without any limitation the accumulation of wealth and prosperity as a result of labor.
There is a phrase "Putting new wine into fresh wineskins". Zaihon-Tokumatsu principles Okada promoted were new wineskins that went beyond the traditional framework of Hotoku thought. In the era when the socio-economic environment was changing drastically, if Hotoku thought had stuck to the old thought, it would have been buried in society. Okada’s Zaihon-Tokumatsu principles succeeded in converting Hotoku thought from the guiding principles in agricultural society to the guiding principles in modern industrial society. This is clear from the fact that Zaihon-Tokumatsu principles were a factor in producing a large number of entrepreneurs from the Enshu region and that many entrepreneurs in Japan used this principle as the foundation of their management philosophies and corporate ethics.
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1 Sontoku Ninomiya (1787-1856) was a Japanese agricultural leader, philosopher in 19th-century. Ninomiya was born into a farmer’s family and lost his parents at a young age, but he worked hard to study and rebuild a ruined
family. Later, he helped restore villages throughout the country. Ninomiya's thoughts and actions spread throughout Japan as Hotoku thought, affecting many people, including entrepreneurs and politicians.

2 “Suijo (concession)” is one of four Sontoku’s philosophy. Other three are “Kinben (hard work),” “Shisei (sincerity),” “Bundo (computational general equilibrium).”

3 Hamamatsu Historical Site Survey Society [1977], p.473.


5 Okada [1909], p.185.

6 Hirakawa [2006], p.171-272.

7 Horiuchi, Ryo [1998], p.1

8 Horiuchi, Ryo [1998], p.32

9 Felder [2005], p.33.

10 Ogino [1999], p.24.

11 Okada and Honma [1971], p. 41.

12 The Meiji government planned to establish 10 private spinning mills to encourage the spinning industry.

13 The number of employees was about 100.

14 Okada [1931], pp. 946-947.

15 Shizuoka Research Institute [1992], p.208.

16 Shizuoka Research Institute [1992], p.190.

17 Nakagawa [1981], p. 21-25.