

LES HENOKIENS CASE COLLECTION

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HO-SHI

Learn from water, learn by oneself

The business philosophy of 1300 years

1. Outline of Ho-shi Ryokan and Its Spirit of "Omotenashi (Hospitality)"

Ho-shi Ryokan, a 1,300-year-old hot-spring hotel, is situated in the Hokuriku hot-spring resort of Awazu in Komatsu City, Ishikawa Prefecture. It has the world's longest record as a lodging facility run by a single family.

Hot-spring hotels in Awazu¹ were originally built as lodging facilities for people who sought rejuvenation and cures for their illnesses. And during Japan's high-growth period of the 1960s to '70s many of these hotels were rebuilt into modern facilities, just like in other hot-spring areas. Chain hotels backed by big capital were also constructed one after another, and the town prospered. However, the collapse of the country's bubble economy in the early '90s forced most of the hotels in Awazu to close their business. Today, only ten hotels remain. Nevertheless, the surviving hotels are reinventing the small hot-spring town as an attractive destination, and some of the shine is returning to Awazu. The famous Natadera Temple, located nearby, adds atmosphere to this tourist area. The colorful Kutani pottery², which was born in Ishikawa Prefecture and continues to evolve with the incorporation of modern styles and techniques, enchants visitors. The Kutani pottery village and Kutaniyaki Art Museum³ are popular destinations among tourists. According to the statistics⁴ for Ishikawa Prefecture, tourism to the prefecture in 2013 grew 2.7% over the previous year (2012) to 21.63 million people, of which the number of foreign tourists jumped nearly 50%

History,
Geography
and Culture
of Awazu

from 162,000 to 242,000 people.

Ho-shi Ryokan⁵ dates back to 718, when Taicho Daishi (a great teacher of Buddhism), who established Natadera Temple, found a hot spring by following the divine prophecy of Hakusan Daigongen (the deity of Mt. Hakusan). He ordered his disciple Garyo Ho-shi to build and run an inn for people seeking cures for their illnesses. This hot-spring inn, named "Ho-shi" after its first innkeeper Garyo (the first Zengoro), has continued for 46 generations. The present proprietor is the 46th Zengoro, and Ho-shi is a member of the Henokiens Association.

The History
of Ho-shi

The Ho-shi Ryokan, with a staff of 70, welcomes 2,800 to 3,500 visitors each month⁶. Guests are welcomed by kimono-clad staff at the entrance of the wooden building. Upon entering through the entrance, one will see a large, tatami-mat area facing a graceful Japanese garden. All guests are treated by *maccha* green tea and Japanese sweets in this area. This is the beginning of the 1,300-year-old "*omotenashi*" (hospitality) spirit the guests will enjoy during their stay. The four lodging facilities are built around a beautiful Japanese garden. The guests can see the garden through glass windows from anywhere along the long corridors while they are guided to their room by the staff. The guests can also enjoy the pond, rocks and trees in the glass-walled lobby and lounge areas along the corridors. Before entering their rooms, the guests can feel as if they were transported to a "different world" which exists in Ho-shi Ryokan. Each guest room has a tatami floor and an alcove, and the large glass windows and doors through which the garden is visible make one feel as if he is resting in the middle of the greenery. At the center of the garden there is the honored guest room "Enmei-kaku," which has hosted historical figures, members of the Imperial Family and other dignitaries. The meals are basically Japanese, made with fresh local produce. According to the hotel's philosophy, "Hot dishes should be eaten hot and cold dishes, cold," some dishes are prepared right at the dining table. The price ranges are from 12,000 to 60,000 yen per person per night, including dinner and breakfast, while a night at the honored guest room costs approximately 200,000 yen⁶.

Ho-shi
Artifact -
Exceptional
Hospitality

2. Sustainable Management Philosophy

-Being One with Nature and the Community – 小欲知足 Less greed and realization of enough

Natural Environment of the Region

Awazu, where Ho-shi is located, is approximately 20 minutes by car from the Sea of Japan, or 30km as the crow flies from Mt. Hakusan, whose summit is at 2,702 m above sea level⁷, and is surrounded by Hakusan National Park. Awazu is close to the ocean and the mountains, and it has abundant fresh produce. The waters from Hakusan make this area a great rice-producing region. Nature has always had an influence on Ho-shi.

Being One with the Community
1. Natural Disasters

Ho-shi has experienced many typhoons, earthquakes, floods and other natural disasters over its 1,300-year history. Although no clear records remain that tell us exactly when they occurred, Ho-shi has surely sustained damage each time the Hokuriku region was hit by them. However, it has remained and the business has survived. According to the present proprietor⁶, the hotel survived the disasters by being "one with the community" and benefiting from the good fortune of happenstance. He also states that, through various crises in addition to natural disasters, the business has accumulated the wisdom to face and survive adverse events together with the community, and enjoy together what little happiness the events bring.

Being One with the Community
2. Protect the Hot Spring

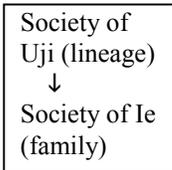
The community has had strong influence over the business not only in times of natural disasters, but also in terms of saving hot spring water in day-to-day operations. Hot spring water is a limited natural resource and will run out if used blindly. Knowing this, the community of Awazu has protected their precious natural resource by minimizing the pumping of hot spring water. Ho-shi's hot spring is approximately ten meters deep, which is far less damaging to nature compared to several other hot-spring resorts in Japan where the hotels are digging 1,000 m or deeper and pumping up hot spring water.

Less greed and realization of enough

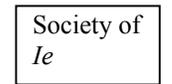
The traditional teachings, "return 80% of profit to others for their favors, and get by with the remaining 20%" and "sharing happiness with people brings good fortune" are still closely observed by Ho-shi today. Ho-shi also goes by the philosophy of "*shouyoku chisoku* (小欲知足 *less greed and realization of enough*)⁶". One should not be self-centered and must remember that one's being is at the mercy of nature and other people, and should

seek a balanced life with them. Ho-shi has practiced this, which is the one of secrets as to why it has survived for 1,300 years.

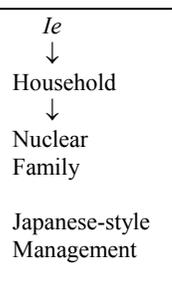
-Family and Staff Who Are Same as Family



As in other countries, Japan has seen the meaning of "family" change with the changes in society. The "Society of *Uji* (ウジ lineage)⁸" that began in or around the first century was based on families sharing the same ancestors. In the eleventh century, the "Society of *Ie* (イヱ family)⁸" emerged, being centered on communities of people living together, and the tradition developed during the Tokugawa era and continued until the Civil Code of Meiji was enacted.



Characterized by the culture of "close relationships" as opposed to individualism, the Society of *Ie* focused on the relationships between individuals. It was also an extreme blood society, having a hierarchy in which families adopted children and couples in order to strengthen military force. To maintain the family continuity, the leader was succeeded by patriline, while the family had a strong management system and hierarchical structure to develop and cultivate land, be self-sufficient and fight. Additionally, each family was independent and free from external interferences. Under the decision-making system in the Society of *Ie*, all family members were considered equal and importance was given to consensus-building through informal communications among family members of different ranks. It was different from the majority system of the Western world.



Families (*Ie*) in the traditional sense were dissolved in the Meiji era. Social ranking was abolished, and "households" resembling traditional families (*Ie*) were created as legal entities, while individualism and the family system of Europe were adopted. Unlike in the Society of *Ie*, the next generation was no longer guaranteed a status or stipend. Instead, the head of the household assumed direct responsibility for the family's survival and development. Later, many of these "households" became nuclear families that lived in cities on salaried income, and family and production became separate. However, some of the characteristics of traditional families (*Ie*), such as the single-heir-policy, persisted in the

business entities run by local ruling families or wealthy farmers. Although blood relatives were gradually removed from the management of these family-run businesses, as the business size grew, the relationship between the master and the employee did not become heterogeneous. Rather it grew in affinity, creating a culture whereby the master protected his servant and the servant swore allegiance to his master. This affinitive relationship developed in Taisho and Showa eras, and consequently the corporate family or business family system was born. This in turn led to the creation of lifetime employment, in-company training, the employee welfare system and other key elements of what is called "Japanese-style management." Successfully growing loyal and self-motivating employees, this culture was also accepted by small and medium enterprises run by an owner-manager.

Ho-shi was already present in the Society of *Ie* period, and it survived the subsequent changes in society such as introduction of the "household" system and acceleration of the nuclear family after World War II. Nevertheless, the managing family of Hoshi still carries on the traditions of the Society of *Ie*. The present proprietor wouldn't know the specifics of how the social and family systems have influenced Hoshi over the course of 1,300 years during which Hoshi has kept its family business, but he reflects on the changes that happened from the time he was growing up until today. He talks about the meanings⁶ of what his grandparents and parents did, the regret for certain things done in his time, questions about the current society and families, and advice for the next generation. In his reflections, one can find some clues on the new systems and management approaches that will be needed for family businesses to survive.

Ho-shi
Family
in the
Society
of *Ie*

In his grandparents and parents' time, all family members ate together and the parents taught family traditions to the children at the dining table. The staff also lived at the hotel and supported one another like a family. Moreover, the family and staff shared the same values and purposes, and there was a sense of loyalty that was similar to the one in the Society of *Ie*. In the present proprietor's time, however, the number of nuclear families in Japan has increased and the separation between family and corporation in family-run companies has accelerated. Sadly, the eldest son of the present proprietor of Ho-shi, who had been the obvious successor, died young. Because the remaining brothers are now in

Changing
Families
Before and
After the 46th
Zengoro

different trades, it isn't clear who will inherit the business. Thus, Ho-shi faces the crisis of continuing a family business brought on by the development of the nuclear family. A daughter of the present proprietor is now working at the hotel and learning the business so that she might be able to succeed to the business. The loss of the eldest son led the present proprietor to realize the importance of keeping strong ties between the family and business.

He also questions⁶ the meaning of family in Japan today. Children should be taught in the family setting to respect their parents and recognize the importance of life, but this is not the case now. He suggests that the traditional values of family should be restored as a way to improve education. After World War II, Japan has approved of "Westernization" in many areas as a good thing, but it was a mistake to think of the strict value education within the family as "outdated" and blindly admire the freedom expressed in the Western world. He points out that the West has in fact valued the family education of mutual respect more than Japan has. He conveys the urgent need to do something to prevent family businesses in Japan from declining while those in Europe and the U.S. continue to grow.

Concerns over Family Education in Japan

The present proprietor's reflection on feedback infers the need to build a new approach to family business in Japan. That approach includes carrying on some of the advantages of the organization in the Society of *Ie* such as affinitive employment relationship and decision-making system while integrating the scientific and logical ways of running a family business in the West. This might shed light on the ideal relationship between the family and employees as well as between the family and the business.

Balancing the Family Organization and Western-style Organization

-Philosophy: 水から (自ら) 学べ Learn from Water, Learn by Oneself

"Springing hot water is the only constant, and everything else has changed⁹," says the present proprietor. Ho-shi Ryokan has kept its door opened by relying on and learning from nature. The core of their management philosophy lies in the existence of nature.

Management Dependent on Nature

An important traditional philosophy⁶ at Hoshi is "Learn from water (by oneself)" (the Japanese words for "from water" and "by oneself" have the same pronunciation, *mizukara*).

Learn from
Water

We should learn from water, which changes shape to fit any container, flows from high to low without going against gravity, and enters any space it encounters. The concept is somewhat metaphoric, but with some imagination we can apply the teaching in many different situations. For example, when we join an organization we should first absorb the ways of the organization and try to adopt them; we should change ourselves to fit the current environment (short-term adjustment of the business, continuation of reform); and we should test byways in order to possibly break away from fixed views. The family and employees of Ho-shi have experienced the abundant blessings of nature and learned life lessons from them. Thus, "learn from water" indeed represents an emotional, philosophical, sustainable management approach that is as effective and valuable as the academic management theories taught today.

Learning by
Oneself

Also, "learning by oneself" means learning from one's own experience in addition to being taught. "*Sottaku douji* (啐啄同時 breaking from the inside and outside at the same time; in other words "wait for the most opportune timing"⁶) is a philosophy that bears the same idea as "learning by oneself." As the chick breaks the egg from inside with the optimal timing when the hen pecks it from the outside, the one who teaches should refrain from showering the pupil with words. Instead, one should patiently wait for the student to learn by himself and provide guidance as necessary at the most opportune timing just like the hen pecks the egg from the outside. In other words, education must be balanced between, on one hand, excessive teaching to the point of inhibiting self-learning and, on the other, non-interference whereby the student is let alone and left to his own devices. "Learning by oneself" and "waiting for the most opportune timing" are the cherished philosophies at Hoshi in patiently teaching the next generation the values of family, ideal marriage and education. We should learn various things by ourselves without simply being forced by tradition or by simply copying the generation before us. The idea applies not only to family education but also to employee education. In today's fast-paced society, which constantly demands change, this thinking is increasingly relevant.

A movement has emerged in recent years among family businesses, which seek to eliminate the three '*mu*'s⁶--namely "*muri* (unreasonableness), *muda* (wastefulness) and

Value in
Muri, Muda
and Mura

mura (irregularity)"--in order to improve business efficiency. At Ho-shi, however, some "unreasonableness" is accepted by customers as tasteful things instead of trying to achieve perfect hospitality. Moreover, some seemingly "wasteful," time-consuming steps are considered important expressions of welcome, such as erecting support columns and securing tree branches with ropes in November to prevent the branches from breaking under the weight of snow in winter and thereby affecting the beautiful view, and then removing the columns and ropes in spring, or treating all guests to maccha green tea and Japanese sweets. Furthermore, value is found in "irregular" things such as services that change or are good or not so good according to the situation. We, as a society, may should have the wisdom or peace of mind with that we can appreciate *muri*, *muda*, and *mura* as pleasant and tasteful, instead of treating them as faults. At Ho-shi, these unreasonable things represent emotional values that family should "learn by oneself."

3. Issues in Recent Years and Going Forward

-Aging Facilities

Aging
Mammoth
Facilities

Ho-shi has expanded its facilities several times. Particularly, it grew to huge proportions during the period of high economic growth when group tours gained popularity. The large communal bath had been moved multiple times before settling in its present location. The current buildings include large, reinforced-concrete buildings that have replaced the older structures, are showing their age and needed repair. However, the nearby modern and pretty hotels offering inexpensive packages are a threat to Ho-shi Ryokan, whose charges are relatively high. Because more and more people travel individually than in groups today, many giant hotels in other hot-spring resorts, including Japanese and Western-style ones, are struggling by running and labor costs, and closing the business. Hotels can't be updated continually in order to meet society's rapidly changing needs and travel modes. "It was a mistake to demolish the old structures and build reinforced steel buildings, but we didn't know that then. From now on, we should decide not according to the changes in society but based on our own set of values, regarding what to change and what not to change," says the present proprietor in a regretful tone.

Balancing
the Long-
Term and
Short-Term
Strategies

The issue of repairing aging facilities must be considered in the context of overall business management of the company, as it requires significant capital. It's necessary to balance the long-term and short-term strategies. Synthesizing various strategies including conserving cash, adjusting loans, observing the subtle changes in the society in short term, and setting a company's long-term vision, Ho-shi should determine which part has more priority to reconstruct and make a solid plan. Creative thinking is crucial to success to maintain large facilities.

-Maintaining High Quality

Influence
from
Deflationary
Economy of
Japan

The quality of other areas than facilities, such as meals, garden maintenance and human services, must also be given consideration. The business approaches based on low-quality, low-cost, and low-ROI (return of investment) that have taken roots in Japan over the many years of its deflationary economy is pressuring Hoshi and other businesses that have thrived on high quality and added value to do the opposite. The challenge is to respond to the pressure in a sensible way while ensuring that the next generation continues the hotel's values and traditions.

Differentiation

Ho-shi must first recognize what represents high quality, such as the history and ambience of its Japanese garden, the design of the hotel's Japanese-style buildings, the meals and ingredients, and other aspects not usually found in other Japanese or Western-style hotels. It's also important to prioritize the items whose quality must be maintained, according to the hotel's vision and preferences of society. Additionally, ingenious measures must be taken to spread information to customers about what separates Ho-shi and its high values from other low-priced hotels. This way, the guests will not feel unsatisfied with the high prices they pay because they can see the value. There are various methods can be considered in order to draw more customers, such as developing hotel packages targeting foreigners as well as repeat customers who understand very well the value Ho-shi offers, and creating the new ways of hospitality for health-conscious and nature-loving customers with taking a fresh look at hot spring as a source of "cures for illnesses" not only a place for

recreation. Thus, it is necessary to offer services that allow the customers to recognize the difference from other hotels in order to fascinate more customers despite of high price.

-Ties with the Family and Employees

Absence of
Successor

The passing of the present proprietor's eldest son made the heir to the Ho-shi business no longer apparent. The present proprietor states, "I will choose the successor by considering who might fit well to do the duty." The process of choosing the successor may strengthen the family ties as the family members recognize what unites the family and how the next generation should be educated.

Aging
Employees

They also have the issue of aging of the employees. The young generation must be recruited and educated. The traditional system of employees living on the premises like family and receiving education in the environment no longer works for today's society. Because it's impossible to nurture employees by sharing the value set and vision of the company in a casual setting of day-to-day life, Ho-shi must send its employees to outside seminars for the development of leadership, teamwork and other skills, or adopt systematic employee education which is appropriate for its management style under the guidance of outside advisors. Although the mode of employee education may change, the advantages of the family-run business should be maintained by ensuring that what is taught is consistent with the philosophy of "learning from water (by oneself)" and values of "unreasonableness, wastefulness and irregularity" that the family has handed down through generations.

4. Summary: Building a Family Enterprise

- Family or Business?

Ho-shi, as it goes forward, must find ways to integrate the mutually exclusive concepts of "**family**," where love between the parent and child, the equality of siblings and other emotional elements are given priority over numbers, theories, or rationality, and "**business**," whose purpose is to eliminate wastefulness, unreasonableness and irregularity and to generate profit by analyzing data, utilizing technology and organizing.

Paradox

- Individual or Whole?

"We have built a history, and I'm responsible for handing down that history and maintaining the hot spring. That's why I have to bear with many things and endure it all," states the present proprietor. What are the choices available to him to fulfill his personal responsibility and role in the organization, while satisfying the individualism he was taught to advocate after World War II? Ho-shi, like other family businesses, has a conflict in between the individual and the whole.

- Long-Term or Short-Term?

As long as Ho-shi is part of economic society, its business will be influenced by temporary modes. Thus it must develop strategies for response to these temporary things. On the other hand, in order to hand down its tradition over many generations, Ho-shi must also adopt strategies that reflect its long-term perspectives.

It is therefore necessary to build a family enterprise that can conceive business strategies to meet the aforementioned paradoxes. In regard to family governance, Hoshi should create a book explaining the history of the family and Ho-shi Ryokan, clearly present the mission statement of the family, prescribe and document a set of rules, and organize periodic family meetings and social gatherings, education seminars to nurture next-generation leaders and other events. Furthermore, Ho-shi should improve the skills of its family members and business staff in order to ensure better communication between family and business, and keep the consistency of both visions by which the enterprise has always functioned.

Building a
Family
Enterprise

Additionally, it is necessary to paint the picture of ideal new leaders. The new leaders should be deeply loving and caring with respect to family ties. However, such leaders should also continue to run the business successfully with their emotional intelligence. The new leaders think "outside the box" and patiently implement long-term strategies that consider the generations of their children and grandchildren but, at the same time, are sensitive to short-term currents and shifts in society. The new leaders are not reluctant to freely depart

Ideal New
Leaders

from the existing framework, while having planning skills and acts reasonably at the same time. They are kind and compassionate, but also rational and respectful of efficiency. Ho-shi needs leaders and family members who can handle these seemingly contradictory things.

Ho-shi, in trying to grow its next successor, is at the juncture where it must tackle various issues and find creative business solutions so that the 1,300-year-old business will continue to run and prosper. First and foremost, Ho-shi must take a fresh look at the assets and values that have been handed down through generations, and build a strong-knit family that has a unifying vision of the future. The philosophy of "learning from water (by oneself)" is the foundation of the workings of family, and the concept must also be applied to the business for the sake of consistency. Ho-shi is indeed at the crossroads of balancing the family and business and trying to grow and develop as a family enterprise.

Building a Family Enterprise by Drawing on the "Learn from Water (by Oneself)" Philosophy

A family business is complex and difficult, but these factors make it all the more feasible to make the business stronger. After 1,300 years of learning from water (by oneself), Ho-shi is well positioned to achieve it.

Questions

- What is their secret as to the maintenance of their phenomenal multi-generational lifeline?
- What were and are the challenges they have recently faced in terms of transition and how do they expect to secure a stable future leadership for the coming half century?
- Which typical assets could favorably be adopted in other family run enterprises?

Endnotes

¹ Awazu Hot Spring <http://www.awazuonsen.com/>

² Kutani Pottery Museum <http://www.hitwave.or.jp/kutani/index2.htm>

³ Kutaniyaki Art Museum <http://www.kutani-mus.jp/en/>

⁴ Statistics of Tourism in Ishikawa Prefecture 2013
<http://toukei.pref.ishikawa.jp/dl/2848/kankoutoukei25.pdf>

⁵ Ho-shi <http://www.ho-shi.co.jp/>

⁶ Zengoro Hoshi, The 46th proprietor, Owner, interview, April 24, 2012; April 17, 2014; November 20, 2014

⁷ National Park of Japan <https://www.env.go.jp/en/nature/nps/park/parks/hakusan.html>

⁸ A Study of Global Economic Crisis and Diversity of Capitalism
https://www.mof.go.jp/pri/research/special_report/f02_2011_03.pdf

⁹ This Japanese Inn Has Been Owned By The Same Family For 1300 Years
<http://digg.com/video/this-japanese-inn-has-been-owned-by-the-same-family-for-1-300-years>