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# An Industrialization Deal in 1868 Japan: Glover the Scotsman in Nagasaki

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CITATION:

Baber, William W.. An Industrialization Deal in 1868 Japan: Glover the Scotsman in Nagasaki. Landmark Negotiations from Around the World: Lessons for Modern Diplomacy 2019: 219-229

ISSUE DATE:

2019-10

URL:

<https://doi.org/10.14989/245552>

RIGHT:

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# AN INDUSTRIALIZATION DEAL IN 1868 JAPAN

## Glover the Scotsman in Nagasaki

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In mid-year 1868 Japan found itself in an uncertain space after the abdication of the Shogun, the restoration of the Meiji Emperor, and the standing down of the feudal clans. Though there were rumors of fighting, the country was in fact at peace and gathering itself for a shift from armed struggle to the greatest and fastest industrial leap forward that the world had yet seen. For the moment, however, the scores of clans in control of Japan did not know their futures and they struggled to shift from war readiness to a new footing that would replenish their funds and strengths. One clan, Hizen, had enjoyed control of the country's sole trading port from 1633 to 1859: Nagasaki. Hizen's ruler, the Daimyo Nabeshima, leapt for the opportunity to realize potentially immense cash incomes by exporting coal. Nabeshima was aware that his leading position on foreign

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contacts and ships was evaporating. His path to riches could however be opened with the cooperation of the rogue Scotsman who had managed volatile rebel samurai, Shanghai traders, and Shogunal officials, Thomas Glover. Success would cement Nagasaki's role in maritime industries. In the end, this particular deal turned out to be Japan's largest industrialization deal by 1868/9, preceded only by Glover's sale of a dry dock system in Nagasaki. Cognitive schemas help understand how the negotiation around the coalmine developed.

## 1. NEW BUSINESS OPPORTUNITIES UNDER THE MEIJI GOVERNMENT

When the negotiation on the Takashima coalmine started, in June 1868, steamships were arriving with greater frequency as the country opened new ports and granted greater freedoms to foreigners. The new government was in place with trade-friendly policies, especially with regards to importing foreign technology. Thomas Glover had been trading in Nagasaki since 1859. His dealings involving ships, weapons, and commodities were now on the wane, and some customers had trouble paying for their orders. Glover was hoping to shift from one-off deals on those goods and to return to long-term investments such as tea processing, production equipment, and speculating in land. Against this background of political and economic change, the possibilities around the Takashima mine piqued his interest.

The main subject of negotiation was the development of an existing coalmine on the island of Takashima, about 2 km off the coast of Kyushu and some 12 km from the city of Nagasaki. Japan at that time had few sources of coal and these were not well developed. There was almost no domestic market for coal as homes were not heated with that material, and existing industry, mainly small scale, relied primarily on charcoal. There was, however, an immediate market available in the servicing of visiting steamships. Glover proposed intensifying development of the Takashima mine knowing nearly nothing about mining, but confident of a growing market.

By 1868, the mine had been developed only to a very limited extent. Operations were conducted by traditional methods and manual equipment. Without pumps, flooded areas were simply abandoned. Despite lacking an engineering background, Glover felt at a glance that the mine could be made far more productive and profitable with modern European methods and equipment. Time would prove him right, but first he had to negotiate a profitable agreement with the Daimyo of Hizen.

## 2. TWO SIDES AND FIVE CHARACTERS SEEKING A DEAL

Glover, his counterparts, and the supporting figures knew one another and had interacted in the course of the 1860s. The actors include Glover, Matsubayashi Genzo, Kenneth Ross Mackenzie, Joseph Heco, and the Hizen clan Daimyo. None of these individuals were experts in mining or long-term finance. Yet they would have to negotiate one of the more important business deals of the early Meiji period; on one side was Glover and his supporters, Heco and Mackenzie; on the other side was the Hizen clan which had complete say over the land and the clan agent. The following paragraphs introduce each briefly.

Thomas Blake Glover arrived in Nagasaki in 1858, just as it was becoming a focus of resistance to the Shogunate. Glover became proficient in Japanese and took over from his predecessor, Mackenzie, before later establishing Glover and Co. Glover completed numerous deals in the decade before the negotiations around the Takashima mine. These deals ranged from mundane commodities such as tea and textiles, to guns fresh from the end of the American civil war and ships. Even more challenging were his dealings with revolutionaries who united the clans of Choshu and Satsuma. These interactions required political sensitivity and daring as they broke laws by smuggling individuals overseas and sometimes incurred the wrath of hot-headed reactionaries. Glover made profits for himself and his employer, but saw a decline of business and cash reserves in early 1868 as the Takashima negotiations began.

Kenneth Ross Mackenzie was a long lasting representative of Jardine, Matheson & Co., a trading company with a speckled history in the Chinese tea and opium trade. Mackenzie functioned as Glover's partner, advisor, and respected mentor. He was Glover's senior, by almost 40 years, with much experience in Nagasaki before Glover arrived.

Joseph Heco was an administrative assistant and interpreter for Glover. Although Glover spoke Japanese well enough to deal with revolutionaries and officials, he included Heco for his bilingual ability and experience. Heco was one of those rare castaways who had been rescued mid-ocean, transported abroad, educated, returned, yet avoided the summary execution most such returnees faced. His biography made him not only a useful employee to Glover but also a man of rare talents in Japan.

Matsubayashi Genzo was an experienced business agent of the Hizen clan. As the lead negotiator for the clan, he was the direct link between the negotiations and the final decision maker, the Hizen Daimyo.

Matsubayashi would have known both Mackenzie and Glover through previous dealings, such as acquisition of ships and the small scale sale of coal. Matsubayashi is described as a “hard headed man of business” and he was the head of the clan’s commercial office (Checkland and Checkland, 1984). Like Heco, he had rich experience dealing with foreigners, exceeded in Japan perhaps only by individuals like the Tosa clan commercial representative, Y. Iwasaki, who would later found the Mitsubishi empire.

Nabeshima Naomasa was the Hizen Daimyo, a politically astute clan headman. He promoted western learning in his fiefdom, reformed its economy, advanced public health through smallpox vaccinations, managed decades of shifting alliances, and completed semi-legal purchases of foreign weapons during the last years of the Shogunate. He was inclined toward the modernization of the Takashima coal pits for income to pay off the debts of the arms race that led up to the restoration of the Meiji Emperor. One essential element of the Daimyo’s relations with Glover was an outstanding debt for \$43,000 for the purchase of the warship *Eugenie* from Glover some months prior to the Takashima negotiation.

### 3. A QUICK MOVING NEGOTIATION

From existing records and the work of historians we can roughly reconstruct a timeline of events.

It is not clear when Glover first discussed the Takashima mine, perhaps before his 1867 trip to Scotland, or even years before, since he had sold Takashima coal in small amounts since 1860. It seems that the initial formal contact was made by Mackenzie, at Glover’s instigation, through Joseph Heco (Heco, 1895). Heco reports discussing the topic with Mackenzie and then delivering an anchoring offer to Matsubayashi who a few months later, on Sunday May 31, 1868, entered into talks with Glover and Heco (Sugiyama, 1993). Matsubayashi was well informed enough to reject the anchor proposal outright and to dive into much more serious talks armed with data and projections. The parties came to a rough agreement in a session on June 1. A first addendum was discussed the following day and agreed on June 3 as Matsubayashi attempted to get some support from Heco, his countryman, against Glover (Naito, 2001; Sugiyama, 1993). At this point, Glover left abruptly for Hyogo and Osaka to join land auctions in those ports, travelling on June 4–8. Matsubayashi agreed the second addendum on June 9, which the clan agent signed. After only three sessions in the midst of these other activities, the deal was agreed.

Hereafter, equipment was ordered and installed, technicians brought in, and sales consummated in short order. The mine was producing approximately 60–90 tons per day by January 1869 (Sugiyama, 1984).

#### 4. A SUCCESSFUL DEAL AND THE SEEDS OF FAILURE

A first observation is that, for all actors in the deal, there was urgency to gain stable profits in a national atmosphere of relief, celebration, and concern.

Economically, there was a reckoning of debts in 1868 that had built up in the course of the revolt that restored the power to the emperor. The fiefs that had been spending and borrowing in previous years were taking stock of their situations and avoiding expenses (Sugiyama, 1984) and Nagasaki was in a downturn (Checkland and Checkland, 1984). The central government, undeveloped and unsure as it was in the earliest months of the Meiji period, was not yet making large investments. For Glover, this meant fewer transactions and earnest threat of defaults. For the Hizen clan leader, Nabeshima, this meant minimizing expenses, and a motivation to seek longer-term gains. One strategic change was however clear: trade was on and more ports were open, with more scheduled for opening. It would mean an increase in the number of foreign ship arrivals for Japan as a whole.

Nabeshima, the Hizen Daimyo, needed a stable income in order to manage clan debts. Foreign currency was a must, as the value of the Japanese *ryo* had decreased through most of his lifetime because the Shogun governments had successively debased the currency. In order to thrive in the unknown new order of the Meiji era, Nabeshima also needed to establish advantages over other clans that were likely to compete for resources and attention. With the port of Nagasaki apparently in decline, the clan's ancient advantage was eroding. A reliable sales channel for coal was an imperative if the coalmine was to bring any benefit at all. Beyond these immediate benefits, Nabeshima sought long-term control over the mine, low cash outlay, and strategic guidance regarding development and markets. What alternatives might a clan like Nabeshima's have had in 1868 Japan? The Daimyo could have searched for other partners with language, trade skills, and financing, perhaps in Yokohama; however, this would likely be time and cost intensive. Instead, the Takashima coalmine required resources he could realistically deploy: the island, its coal, manpower,

permits, and useful local human networks, but only limited amounts of cash. His business agent, Matsubayashi, was skillful. Principal-agent conflict was minimal because Matsubayashi's position in a feudal society meant his success and satisfaction was synonymous with Nabeshima's. This ironbound connection may explain why Matsubayashi and Glover had apparently not developed a warm working relationship despite completing deals previously.

Glover's needs were relatively uncomplicated: income. Beyond this, he wished to diversify his business activities while ensuring low involvement in management of the mine, and a high share of profits. Glover appeared to have relatively strong business alternatives such as purchasing plots in Nagasaki, Osaka, and Hyogo ports as well as imports of marine and minting equipment, though we have noted these were in decline. He had, in addition, a vision that others seemed to lack, as well as access to finance, contacts to mining experts, sales skills, ability to buy equipment, and available customers (Checkland and Checkland, 1984; Gardiner, 2007; Sugiyama, 1984; Sugiyama, 1993).

In summary, Glover and Nabeshima, the two main actors of the deal, had complementary resources and skills; however they lacked experience in mining and resource development, a glaring gap. Glover had the better alternatives; nonetheless, his words and actions of the time indicate that he clearly felt the Takashima mine would be the most profitable among his choices. The sailing seemed clear for an agreement, but there were a few rocks in the Nagasaki waters.

#### 4.1. BEWARE THE ROCKS!

The first rock to avoid was a clumsy effort by Glover to anchor the negotiation at a very low cost to himself. In exchange for the mineral rights of the island, he offered \$6,000 to the Daimyo and another \$6,000 for other leading families (karo) as a one-time transaction. Given his own expectations of \$2 dollars profit per ton on 200–300 tons per day, this was an outrageously low anchoring offer. Matsubayashi's calculations laid this bare, but the Daimyo was not put off.

The next hazard was the small steamer *Eugenie* which had been purchased for \$43,000 from Glover. Payment was not forthcoming, and default seemed likely. The first version of the agreement saw Hizen giving Glover \$43,000 of credit in goods, and the final version saw the ship paid off through cash from mining profits. Thus the *Eugenie* was transformed

from a problem to a solution that made the parties more dependent on their mutual success.

A final hazard to overcome was Glover's haste: after discussing and agreeing on June 1 with an addendum on June 3, he immediately took a week-long visit to Osaka and Hyogo to buy land. Directly upon his return, a second addendum was presented and agreed. In each addendum, Glover's positions improved by only minor concessions regarding monitoring and punitive clauses which neither side would have an interest in activating.

Thus the deal was completed. But why did this apparent triumph become a failure?

#### 4.2. INSIGHTS THROUGH SCHEMAS

For Nagasaki and Japan, the development of the Takashima coalmine is considered a historical leap forward as one of Japan's first steps towards industrialization. Yet it is ironic that, despite the apparent success for Glover, the implementation of that negotiation quite rapidly went wrong for him. Despite his years of successes, deep knowledge of the environment, and substantial cultural skills, Glover the Scotsman went bankrupt within two years. How can we explain this?

One possible explanation for the mistakes made can be found in the field of cognitive psychology. We can analyze Glover and Matsubayahi's behaviors through *schemas*, a way of describing knowledge structures found in all people. As processes, specifically *procedure schemas* and *strategy schemas* (Nishida, 1999), schemas guide the thinking of people as they interact. They play a fundamental role in organizing routines and formal ways of behaving in many circumstances. But how do people envision negotiations? Beyond the broad definition of schemas as "mental representations of some aspect of experience that help interpret information" (Colman, 2009), negotiation schemas are guidelines, but not prescriptions, for processes and strategies that negotiators follow. The nature of schemas and their execution depend on one's experiences, culture, gender, age, and even rank in an organization (Baber and Ojala, 2015). Schemas guide the thinking and actions, but they do not determine interests and motivations. Schemas for negotiation include the processes negotiators execute to attain interests but they cannot prevent errors or guarantee best results; our schemas may lead us to success or doom.



Adjusting to, taking on or manipulating schemas of others is part of the cross-cultural experience of business people (Baber and Ojala, 2016). By 1868 Glover had a decade of experience with Japanese people, ranging from workers to a Satsuma Daimyo (Burke-Gaffney, 2009). He would have encountered and successfully used or adjusted a range of schemas as he negotiated in the fast-moving business and political environment of the times.

No one can conclusively determine the schemas in play among the actors in this long-past negotiation. Indeed, there may have been some schemas active that 21st century researchers might not recognize at all. Nonetheless, evidence from historical documents around the Takashima negotiation allow the investigator to infer a number of matches with procedure and strategy schemas around negotiation. Four of these are examined below, as they guided the negotiators to solutions and into eventual failure.

1. *Explore for cooperative solutions.* This widely used process schema, shared today amongst Western as well as Asian negotiators (Baber and Ojala, 2015) and apparently also with Glover and his counterparts in 1868, led the parties into restructuring the loan for the *Eugenie*. Linking the loan to mine development ensured that it would not go into default and took pressure off the cash strapped clan.

However this negotiation schema was not used well. It can sometimes be dangerous to be over-creative. Paying the *Eugenie* debt from profits increased the likelihood that Glover would get payment, but eliminated any chance of getting cash or even trade goods in the near future. The risk became entirely Glover's, to whom slow payment seemed better than accepting payment in kind or non-payment. This short-term mutual win would turn out to be a serious mutual error later because their effort to resolve the point meant the critical loss of operating capital.

2. *Determine if there is suitable end to end business logic.* This of course very important strategy schema did not unfold properly for the parties to build a resilient agreement. Glover anticipated that, aside from large profits, there would be a long-term coal market accessible through his business network and a need for expert technicians. In addition, he expected the clan to take over day-to-day management of the mine, seeing to labor issues in particular.

Glover did not, however, grasp the challenges of managing the mine including the high cost of maintenance and labor. Consequently

he missed the need and opportunity to raise short-term capital by selling or mortgaging his land holdings. Poor execution of this strategy schema led him to bargain for only seven years, apparently not considering longer-term plans at all. As for the clan, Matsubayashi's report after the first communication with Mackenzie identified rough costs and break even projections, not merely profit hopes. His report also found that Glover held the keys to selling the coal, yet he misunderstood the capital needs of the mine. Both parties failed to follow through fully with this schema to accurately assess the lifecycle of the business.

3. *Get the deal and move on.* This strategy schema, which today seems more widespread in the West than in Japan (Baber and Ojala, 2015), perhaps caused Glover to rush into agreement in an attempt to gain the opportunity regardless of the details simply so he could hurry off to land auctions in Osaka. Upon returning, the second addendum amounted only to a few "band aids" and could not right the errors already built in.
4. *Secure an ally, develop the relationship.* This strategy schema seems to be widespread in today's Japanese negotiation behavior (Baber and Ojala, 2015). In 1868, it is likely to have applied to Glover and the clan; however, they did not develop it successfully. For the clan, alliance building was a main thread of their political maneuvering in those decades as the various clans plotted and squabbled (Jansen, 1994), but may not have applied to their business dealings. Regarding the coalmine, the parties needed skills and resources from each other for several years at least. Alliance building appears to have been part of Glover's thinking throughout his career as he had shown himself adept at building allies among the rebels seeking to overthrow the Shogun, as well as among Shogunal officials. Some of these alliances lasted decades and led Glover to new opportunities ranging from beer brewing to work for Mitsubishi Corporation. Although Glover attempted to build a deep alliance with the clan, this schema failed to bear fruits sufficient to weather the financial difficulties that soon arrived.

The schema framework offers an analytical lens to understand negotiators' actions and thinking and how they approach negotiations. Schema do not tell us precisely why negotiators succeed or fail. Rather, they help us understand what kind of thinking and guidelines the negotiators took into the deals they made.

## 5. TYING UP LOOSE ENDS

Takashima coal burned well – better than expected, as shown in a formal sea trial in the fall of 1868 (Gardiner, 2007). Captains quickly came to prefer it in East Asia (Sugiyama, 1984). Despite mechanized production from January 1869, the mine was slow to achieve the targeted +200 tons per day. Soon, labor became restive because of poor conditions. Even so, prospects looked good until a promissory note delivered by a visiting captain forced Glover into sudden bankruptcy. Glover could neither save the deal nor motivate his usual backers to do so and thus the Netherlands Trading Society took over Glover’s share in the mine. His negotiation needs and wants were never fully met: he gained only little income and that too slowly; further, he could not avoid becoming the operations manager – the very task he had negotiated for the clan to handle. The clan lost some of the revenues it yearned for, and eventually also control of the mine.

The new owner required Glover to remain as operations manager and for the next several years he worked hard to manage the mine into success. Despite losing his ownership, he recovered his money in time as he earned the tangible gains of an employee and the intangible gains of becoming one of Japan’s most seasoned industrial managers. Soon the mine would become a pillar of Japan’s industrialization; a success for the nation although only a marginal win for the parties first involved. Decades later Glover would be recognized for this and other contributions with an award from the Meiji Emperor himself.

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