Impressions of Hitachi’s Corporate Governance

Corporate governance is a topic some aspect of which is discussed at every board meeting. I believe the Company has made great strides in recent years regarding corporate governance. Hitachi formulated and disclosed its Corporate Governance Guidelines which outline qualifications for outside directors, etc. in May 2012, to increase the transparency of its management. I think the governance of Hitachi is very positive. The Board meetings are conducted very openly and great credit is due to the chair of the Board for encouraging this.

Furthermore, I think the corporation is very open to different reforms and different standards of governance. For example, in 2014, we changed the committee structure. Under the new structure, outside directors became chairs of the nominating committee and compensation committee. In this way, we are adopting a more western-style governance. I believe we have carried out reforms effectively, and accordingly our corporate governance is being modeled by other companies.

When I have spoken to investors in Hitachi, they really admire what Hitachi is doing and say they wish other companies would do more.

Issues to Address

As an outside director of Hitachi, I think Hitachi’s strengths are its magnificent technology and the breadth of its business. It is one of the 10 greatest modern companies in the world. It has enormous strengths. However, we still don’t always leverage those strengths as effectively as we could. This is an important issue we need to address. What I recommend to companies is that our main mission is to create increasing shareholder value every year. That’s the real mission. But, of course, we also need to make Hitachi a happy place to work, a secure place for employees, and a good place for customers and all stakeholders. We need to keep the interests of all of our stakeholders in mind, not just one.

I think another issue, not only for Hitachi, but for many Japanese companies is a cultural one. Japanese people rightly have a strong positive belief in their society and in the power of the group. But a downside of this is that it sometimes slows action and our willingness to adapt to changing economic and competitive circumstances. Since the world outside is changing ever faster, to remain competitive, we have to be willing to change more, to adapt better and to reform faster. If we reform slower than our competitors, they will overtake us and, ultimately, that could be very hard for the corporation and threaten our survival. Japanese companies need to push harder for better growth, better margins and better cash management, while not forgetting the many good aspects of their work culture. Hitachi needs to retain the good aspects of Japanese culture, while adopting some new behaviors and methodology.

We can see the reason for this very clearly. Thirty five years ago, Japanese companies were the most creative and competitive in the world. Yet today, many have been overtaken by their foreign contemporaries. These competitors adapted and learned from Japanese companies and, in some cases, the “students” are now doing better than their “teachers.” We must not allow that to happen at Hitachi.

Going forward, we therefore need to pursue efforts to make Hitachi a more sustainably- competitive company. If we become a more sustainably-competitive company, we become more prosperous; and if the company becomes more prosperous, the company becomes more secure for everyone; employees, investors, customers and suppliers alike. Faster, profitable growth must be our goal, inside an ethical and legal framework.

Approach to Value Creation

I believe there are five great value-creating activities that will help us become a globally competitive company; sales growth, margin enhancement, improving working capital terms, legally and morally lowering our taxation burden, and working to improve our P/E (price/earnings) ratio. Each of these previous activities contributes to value creation.

Then, we should approach these activities with six competitive vectors, six sets of tools if you like. These tools are the cost of the product, technology and innovation, distribution, customer service, brand and marketing, and people. We always have to remember nothing in the company would get done if it wasn’t for the people. So, it’s people who change the company, and people who drive reforms. It’s people who will innovate. It’s really the people and how we inspire, motivate and reward them that are the keys to this whole puzzle. It’s the single most important thing, people.

To truly become a sustainably-competitive company, we can’t just be good at technology, but bad at cost. We can’t just be good at cost, and bad at technology. We can’t just have great distribution, but have bad products. Therefore, I believe that a balanced approach to these six vectors will allow us to accomplish this difficult but essential task going forward.
Impressions on Change at Hitachi

Over the last couple of years, Hitachi has broadened the makeup of the board, where today, the majority of the board is comprised of outside directors and is functioning under international governance standards. Hitachi’s executive team aims to be world-class in all aspects of the Hitachi businesses. There is clear recognition that in order to become truly global, diversity of thinking and experiences is key, as the executives seek input from the board. The breadth of the board discussions and the level of engagement and interaction have continually progressed as we often challenge and debate issues. The executives are listening, reflecting, and responding to input.

Another change relates to the development of the Social Innovation Business. I attended the Hitachi Social Innovation Forum in Las Vegas, and was impressed by the diversity of solutions being developed by Hitachi in conjunction with our customers and suppliers from across an enormous range of businesses, industries and social environments. In my opinion, no other company in the world has the expertise and the technical and innovative capability to serve such a broad consumer base. The Social Innovation Business represents the catalyst in becoming a truly global corporation.

Hitachi’s Strengths

I have been hugely impressed with the people that I have met at Hitachi. The leadership of the company is dedicated and has vast experience. In addition, the receptiveness and openness of the Chairman & CEO and President & COO are evident as they actively seek different perspectives and inputs. Hitachi employees have enormous opportunities to learn and develop across businesses and across geographies in a company that has the potential to be the leader in virtually all of its businesses. I can’t imagine a more exciting place to work as a young person beginning a career.

Another strength of Hitachi is that the company produces the highest quality products and is very sophisticated in its technology and innovation. It is a company with name recognition and is respected throughout the world. Together, these strengths represent enormous levers for further value creation and enhancement.

Becoming a Global Company

Our objective of having over 50% of our revenues from outside of Japan has now been achieved this year, and this demonstrates Hitachi’s ability to become a global company. The Social Innovation Business is the business platform for further global growth. Across Hitachi, we need to leverage the scale, scope and expertise of the company to ensure organizational efficiency (reducing redundancy), agile decision making and responsiveness to the needs of our customers while constantly seeking innovative solutions for today and for the future. Our ability to integrate our marketing and sales of our products across customers and geographies is an enormous opportunity and this will take creativity and teamwork.

In promoting globalization to achieve higher profit ratios and cash flow levels than our competitors, Hitachi is supporting more diversification. There is a recognition that globalization starts with the top team in exposing people to alternative perspectives in various parts of the world. Many of the newcomers at Hitachi are speaking English while Hitachi is recruiting people from different backgrounds, different nationalities, different experiences, and different educational exposures, which I believe is very important. This is particularly critical with respect to marketing and commercial matters. The board members themselves are worldly and recognize the need to diversify in order to become truly global.

It is up to everyone in the Hitachi Group to achieve success as One Hitachi. Each of us has a role to play in this endeavor. Creating One Hitachi will happen by working together, respecting input from one another and working as a team, both within each business and across the Hitachi Group.

Finally, I believe Hitachi must have a keen awareness of our competition, constantly driving towards outperformance and seeking opportunities for growth and value creation. We need to be aware of our strengths and where we need to improve. The recent decision on the acquisition of the rail business in Italy is an example of how we identified a complementary business to the broader rail business that would catapult us into an improved market position while capturing synergies. This kind of strategic initiative will clearly enhance our global position.