**Technotalk**

# Toward Realization of Sustainable Society through CSR-centered Management



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Founded IIHOE in 1994 to support the management of NGOs, social entrepreneurs, and CSR-oriented enterprises, and the development of foundations to foster collaborations between citizens, business, and governments.

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**Representative Executive Officer and President, Hitachi, Ltd.**

Joined Hitachi, Ltd. in 1970. His appointments have included Managing Director of Hitachi Europe Ltd. in 1998; Vice President and Executive Officer in 2003; Senior Vice President and Executive Officer in 2004; and Chairman & CEO of Hitachi Global Storage Technologies, Inc., Executive Vice President and Executive Officer, and Representative Executive Officer and President since April 2010.

In the midst of accelerated globalization, today's society faces various emerging issues including economic disparity between regions and global environmental problems. Corporate activities that contribute to solving these issues are growing in importance. Having had a long involvement in the construction of social infrastructure systems, both in Japan and throughout the world, Hitachi is now adopting a management strategy centered on CSR for operating its Social Innovation Business in cooperation with partners from various parts of the world. The company's goal is to help realize a sustainable society by expanding CSR-centered businesses and also by sharing values with society.

## CSR as a Business Activity

**Kawakita** I have had the pleasure of helping prepare CSR reports and training courses for Hitachi. Today, I am very delighted to have the opportunity of asking President Nakanishi directly about management and CSR. To begin with, I would like to ask about the role of CSR in Hitachi's business strategy.

**Nakanishi** The shape of the manufacturing industry has changed greatly in recent times. Manufacturing industry has been literally the industry of "manufacturing and selling products," but its substantial meaning has changed. Simply manufacturing "quality products" is not enough. What matters now is, firstly, what is meant by a "quality product," and also the gap between what customers demand and are satisfied by and what we believe to be good for customers.

As far as Hitachi's businesses are concerned, customers cannot be bracketed into any one category. Instead, they include various types, including business-to-business (B-to-B) and business-to-consumer (B-to-C) customers. In any case, there is a strongly recognized need to rethink what constitutes strength by considering which features are genuinely beneficial to customers and which are pertinent to security, safety, and well-being.

In this context, the essential element for manufacturing products that satisfy customers and the market is the

extent to which we can look at questions from a customer's viewpoint. As corporate activity has an increasingly broad influence, "customers" in this case means society. Providing society with the security, safety, and comfort people truly want is what constitutes genuine corporate social responsibility.

In other words, CSR is not limited to social contribution or to the redistribution of profits to society. CSR is itself corporate activity. What will be demanded from companies in the future is that their corporate activities will themselves be based on social responsibilities.

**Kawakita** Global corporate giants claim that they are taking up the challenges posed by the issues that societies will face in the future. It appears that, instead of taking a conventional "research and development (R&D) first" approach, CSR derives from the idea that companies exist to solve issues together with society.

**Nakanishi** That's true. Seeds-oriented technologies and products are of course important. And careful analysis is also necessary to see if they really help with the progress of society.

**Kawakita** The essential point here is not to "sell what we make," but to have a thorough debate before manufacturing. In this context, I believe that CSR relates not only to outputs, but also to the adequacy of the processes used to produce the outputs. Furthermore, judgments about this adequacy must not be kept within the company; rather there should be an open attitude to the outside world that includes cooperation with society.

**Nakanishi** Yes, I think so too. In the case of developing consumer products, such process can be constructed step-by-step. On the other hand, it may face difficulties when we deal with "B-to-B" products. For example, whereas IT systems have in the past been used to improve the efficacy of business operations, attention is now shifting to how we can help identify and make use of knowledge. Underpinning all this is the question of how to achieve a sustainable society rather than having an exclusive focus on growth. In respect to this question, corporate activity should not be concerned purely with the performance of individual products. Our corporate activities themselves must exemplify our social responsibilities.

Management goals during Japan's high-growth era were very clear. They concerned such matters as increasing production and rationalizing operations. As society matures, however, the issues of concern can be seen much more as being about balancing diverse elements to achieve sustainability. Resolving these issues is a difficult challenge, and as such it provides an opportunity for Hitachi to demonstrate its values.

**Kawakita** Another important aspect of this challenge, and one of particular significance to Japan, is how to cope with the falling birthrate and aging population. Transportation,

too, is a critical factor. One example of what can be done with advanced infrastructure would be a service that allows users to access information such as medical treatment schedules by scanning their local resident registration card with their smartphone. The service could also be combined with technologies such as intelligent transport systems (ITSs) to provide the users with an automated vehicle to get them to their hospital appointment. Naturally, services like this that combine advanced technologies or that integrate mass transportation with personal mobility require that the associated infrastructure be in place, and this in turn requires governmental leadership. I also believe that companies like Hitachi have a role to play in responding to this challenge.

**Nakanishi** Transportation, I believe, will become a critical field not only in Japan, but also globally. The development of the automotive infrastructure, and its increased sophistication, should proceed in step with the development of railway and other forms of public transportation. To create a sustainable system, what is needed are plans and proposals that consider the current status and future outlook for both types of transportation. This problem is particularly severe in developing economies, and it is made even more difficult by the fact that it cannot be dealt with by individual companies on their own. In any case, sticking to a firmly held vision and philosophy will be essential.

## Turning Contributions to Society into a Form of Investment

**Kawakita** In managing your businesses, what are you focusing on as you seek to turn CSR into a common global language for Hitachi?

**Nakanishi** We are focusing on the global development of our Social Innovation Business. In practice, the changes in the manufacturing industry that I referred to earlier are most evident in our overseas businesses.

Hitachi has contributed to the establishment of infrastructure with unrivalled quality in Japan. This was made possible by the presence of competent people in both government and business who combined an ability to manage the necessary technologies with a vision for social design. With such an environment in place, all that we needed to do was to work on getting better at manufacturing our own products in accordance with the vision and plans that were handed down to us.

The situation overseas is different, especially in developing economies. It is not easy for such nations to share a vision with manufacturers on what role specific technologies or products should take in fulfilling social responsibilities and in the design of their society. Furthermore, in operating our business and making a contribution to local communities, we need to act as a responsible corporate citizen. This means taking our social responsibilities seriously and ensuring that

we fully understand the details of what these responsibilities entail. At the same time, we also need to be prudent and avoid creating misplaced or inflated expectations about the extent to which we can contribute to the national economy and society.

This means having a clear vision of the principles and rules associated with social responsibilities. With such a vision, the design of social infrastructure that can truly contribute to the society it serves could pose a significant management challenge in our business.

**Kawakita** A well-known strategy employed by The Procter & Gamble Company and Unilever for developing their businesses in developing economies has been to ensure that they do a good job of informing the public about the value of their products, particularly in the area of hygiene education. While allowing for the differences between consumer products and social infrastructure, this suggests that we also should make use of education, including, in certain cases, the education of consumers.

**Nakanishi** We need to be able to communicate our true intentions. As a company, we rely on our profitability to maintain our business activities, and we may also need to educate people about what this means.

**Kawakita** The Japanese Government, economic organizations, and companies already provide various forms of educational assistance and technical training, mainly in Asian countries. Meanwhile, the development of human resources will become increasingly important in the future, particularly people with the skills required for planning of social systems. The more people there are outside the company who understand the common language of CSR, the better we can share the process of value creation. In the social infrastructure business in particular, fostering people who will be quick to comprehend the value of the system and be capable of policy making is very important.

**Nakanishi** While I agree with this, there is no general method that will achieve this everywhere. In practice, it may be necessary to target some activities, such as the establishment of educational organizations, at regions where the potential benefits are high.

**Kawakita** In this case, it is important to look at social contribution as a form of social investment, rather than seeing it merely as a process of returning profits to society. In this respect, the activities of The Hitachi Foundation in the USA may provide a model. One of the reasons why The Hitachi Foundation enjoys a good reputation in the USA is that it has a strong presence in particular fields. In Japan, social contribution tends to be thought of as activities in a wide range of different fields. If it is to be treated as a social investment, however, it may be necessary to concentrate on certain areas and to enhance value from a long-term perspective.

**Nakanishi** The Hitachi Foundation was founded in 1980s to fulfill our social responsibilities in the USA. The foundation is operated by US citizens for US society. One factor in its durable reputation is that it has built relationships that are independent of Hitachi. Now, however, we are discussing what will be the ideal way for Hitachi to establish its citizenship in the future and fulfill our social responsibilities in the USA.

Since there is a limit to how much of a social contribution we can make, we need a consistent vision so that we can decide where our focus should be. That is why CSR should be an activity conducted in close collaboration with business management.

## Variety of Viewpoints with a Wealth of Human Resources

**Kawakita** One of the critical elements in pursuing the open processes required for CSR is the diversification of human resources. In Hitachi's case, you have appointed several non-Japanese executives as outside directors to improve the diversity of your senior management. How do you see the relationship between human resources strategy and CSR?

**Nakanishi** One key area where companies contribute to society is employment. Human resources come at a cost, but they also represent a strategy in themselves. They are also an important factor in CSR. For now, the reality at Hitachi is that our diversity is insufficient. As I mentioned earlier, greater diversity in the gender, ethnicity, and nationality of our human resources will enhance the capabilities that our customer expect from us.

**Kawakita** It will lead to an intensification of competition and will help keep the company alert in a good sense.

**Nakanishi** In the conventional corporate culture of Hitachi, you always face obstacles if you want to do something drastic. A major reason for this is that we are a uniform and well-established large organization consisting of Japanese people only. The youth of today are said to be introverted, but I do not think so. They can become active when given the right incentives. Large organizations have a tendency to become stratified with numerous obstacles to advancement, and this is enough to make people lose motivation. By incorporating diversity, there are people who do not see these hurdles as being hurdles. This is important.

Actually, having more outside directors, including two non-Japanese directors, has entirely changed the atmosphere of the Board of Directors. Companies in the future may need to make provision for overturning the assumptions that apply within homogenous groups, so that discussions and decision-making can take in different viewpoints, for example. Whether obstacles can be overcome is not only a problem for the individual, it is also a responsibility of the management who helped establish the environment.

**Kawakita** It is also important to take note of a wide range

of opinions from both inside and outside the company. To sustain a good reputation in the field of CSR, a global corporation needs to maintain ongoing communications with counterparties such as non-governmental organizations (NGOs) from the early stages of any business activity. In addition to helping deal with any problems that may arise, this is also useful when planning future strategy.

**Nakanishi** I agree. While security has been an important factor in recent business activities, what needs to be protected against what depends on the nature of the project and its particular circumstances. Furthermore, it is society that determines what is to be protected and to what extent. However, as society includes a wide range of different people whose interests may conflict, it is important to listen to these people's various different views. It is true that companies are part of society, but the problem is that we tend to conduct our discussions and make our decisions internally.

**Kawakita** I believe that companies' CSR divisions are becoming more important.

**Nakanishi** Paradoxically, though, it would be better for CSR divisions to be eliminated in the future. While CSR is about supplementing the deficiencies of management, CSR is also the driver behind social contribution activities and it plays a critical role in establishing satisfactory relationships with entities outside the company. If CSR is now to be equated with the management strategy, it therefore needs to be integrated into the management process. In this context, the expectation of CSR is that it will assist management judgment and help assess whether management has implemented the critical points in the process of executing their social responsibilities.

The principal role of CSR in the future may be to educate management. Ensuring an adequate understanding of the meaning and practical implementation of social responsibilities by everyone in management will be the key to corporate growth.

On the basis of its Founding Spirit of "Harmony," "Sincerity," and "Pioneering Spirit," Hitachi is working to overcome the fundamental challenges of regional society in order to create a sustainable society in which people can achieve wellbeing and live safely and comfortably. CSR will have a central role in the management of businesses characterized by accelerating innovation, making Hitachi a perpetually trusted member of global society.