Hitachi Chemical aims to grow in tandem with global society for the next 50 years, while accelerating the integration of business and corporate social responsibility.

President and Chief Executive Officer
Kazuuki Tanaka
Last year, Hitachi Chemical published its first integrated annual and sustainability report as a part of an initiative to integrate business- and corporate social responsibility (CSR). Could you tell us more about this?

I have always thought that an integrated report made sense, because it offers readers for the first time a view of Hitachi Chemical from the integrated perspective of its business activities and CSR. It shows that we have a robust financial position and have worked hard to gain the trust of society. I believe it also motivates our employees to perform better. Last year, my fourth year as President, we were finally able to put together the integrated report, but I feel there is still much work to be done in order to achieve true integration.

For the Hitachi Chemical Group, CSR is simply what we do every day as a corporation to realize our corporate vision. While striving to astonish under the corporate slogan of Working On Wonders, our mission is to continuously provide new value to our customers and society as a whole. Since assuming office as President in April 2009, I have upheld three management reform policies: “Business Reform” “Organizational Reform” and “Individual Reform.” Meanwhile, the three stances – “Business Stance,” “Corporate Stance” and “Individual Stance” – that have been introduced since fiscal 2011 in our CSR Medium-term Roadmap: Stage 2, are a reorganization of the three management reform policies from a sustainability perspective. These three stances indicate internally and externally the direction we are taking in integrating business operations and CSR. Social responsibility is also becoming more important throughout the entire value chain. We must strengthen efforts to integrate business activities and CSR with our business partners, in addition to group companies.

A new medium-term management plan was launched in April 2013. Can you elaborate on the new plan while discussing achievements under the previous one?

The Hitachi Chemical Group’s previous three-year plan, which stemmed from fiscal 2010 to fiscal 2012, was drawn up in the latter half of 2009 amid signs of a recovery in earnings following the collapse of Lehman Brothers. Although targets were achieved in fiscal 2010, net sales and operating income fell short of our forecasts for fiscal 2011 due to the Great East Japan Earthquake, nuclear reactor meltdowns and flooding in Thailand and for fiscal 2012 owing to weak demand in the PC market.

Although confronted by these significant external factors, the Hitachi Chemical Group also lacked the ability and agility to create new products and businesses, and was unable to fully tap into demand in emerging countries, a key driver of growth, in the high functional materials and automotive parts business fields. Within this context, we have clearly identified measures and issues to tackle under the new medium-term management plan.

The basic policies of the new medium-term management plan are to execute a growth strategy of developing new high-end products and expanding globally, while strengthening the structure through cost reforms. Over the next three years, Hitachi Chemical aims to attain growth in both sales and income by managing operations under these two basic policies.

Our growth strategy is to accelerate the pace of development of new high-end products differentiated by material technologies while accurately grasping changes in the market. At the same time, it is important to release our products, which we fine-tune to match requirements for quality and price in each region of the world, in new emerging markets with growth potential by further refining our cost competitiveness. In order to strengthen new product development capabilities, Hitachi Chemical’s New Business Development Headquarters is tasked with the mission of creating new products and businesses. To fulfill this mission, it coordinates efforts among our research laboratories in charge of R&D, the R&D Strategy Office where new technologies and businesses are discovered and work is undertaken on joint development with external research institutions, as well as the New Business Development Center that is responsible for commercializing new business ideas. The first and foremost mission of our research laboratories is to create new businesses through R&D into new, next-generation and next-next-generation technologies and products. Moreover, our research laboratories are also responsible for R&D into new products with superior market competitiveness in existing busi-
nesses, and then pushing these new products out of the laboratory and onto the marketplace. In other words, our research laboratories go beyond pure research and play a key role in creating new businesses.

In line with its growth strategy, Hitachi Chemical concentrates investments on markets with growth potential such as the environment & energy and life sciences. Investment projects are carefully screened and selected based on policies tailored to each business field. To boost earnings potential, management started using return on invested capital (ROIC) as a benchmark to manage investments. As a result, we now analyze investments at the business unit level, instead of looking at investment returns on an individual project basis.

As for structural reinforcement, Hitachi Chemical has taken a two-pronged approach with business structure reforms, which include expanding new products and businesses and shifting operations overseas, and workflow process reforms, which entail reducing labor costs by installing robotics, outsourcing logistics operations, and streamlining and standardizing processes for marketing and order acceptance. Through these reforms, the Group aims to create value for its customers more quickly.

Q3 Can you go into more detail about initiatives undertaken in fiscal 2012 and the direction of future efforts to integrate business activities and CSR from three perspectives: Business Reform, Organizational Reform and Human Resource Reform, starting first with Business Reform and Business Stance?

The Hitachi Chemical Group is in the business of making materials that are enhanced with various functions to satisfy the requirements of its customers, by taking basic inputs such as organic and inorganic materials and synthesizing and processing them into value-added products. The Hitachi Chemical Group handles a large number of petrochemical products, in other words products that are derived from crude oil. With this in mind, it is vital that we find ways to effectively use limited natural resources and develop advanced technologies for recycling products. We view this as an opportunity to aggressively create new businesses, such as through higher penetration rates and utilization efficiency of renewable energy, by leveraging our broad array of technologies and materials. In order to advance along with global society, Hitachi Chemical must constantly be on the move, innovating and creating new technologies. We call this sustainable engineering. The sales ratio of the Eco-products created from this process—what we refer to as sustainable engineering products—to total sales is one of the key performance indicators (KPIs) that we monitor. In fiscal 2012, this ratio rose slightly to 85.4%, from 85.1% in the previous fiscal year. By fiscal 2015, the final year of the CSR Medium-term Roadmap: Stage 2, we aim to increase this ratio to 88%.

In fiscal 2012, Hitachi Chemical accelerated the globalization of operations, updating its manufacturing bases and expanding its production capacity mainly in emerging countries. We aim to spur further growth in net sales and reap returns on these investments. Meanwhile, Hitachi Chemical will continue investing in R&D, keeping the R&D budget above 5% of net sales, in order to speed up the development of products with growth potential. At the same time, we will prioritize spending on R&D staff in the environment & energy business field, which includes energy storage devices business.

Q4 Next, please review the highlights of the Organizational Reform and Corporate Stance policies.

As I discussed in the previous question about the previous medium-term management plan, the Hitachi Chemical Group must undergo organizational reforms in order to be able to quickly identify changes in the market and act quickly to develop new products and nurture new businesses to realize stronger growth. To this end, Hitachi Chemical has been building out a regional headquarters system in a bid to create a network-based management system tailored to each region. Through the unified management of bases in each region, the Company aims to improve governance and ultimately establish a flowing sequence of functional processes from marketing to development and production. After establishing a regional headquarters in China in fiscal 2011, Hitachi Chemical began to build out regional headquarters functions in Thailand and India in fiscal 2012. We also added marketing functions to the regional headquarters in China.

Another example of organizational reforms is the business integration with Shin-Kobe Electric Machinery Co., Ltd., which we turned into a wholly owned subsidiary last year. In the industrial energy field, demand has increased for backup power sources for medical institutions and other facilities after the Great East Japan Earthquake, and needs are growing for leveling the supply of electricity generated from renewable sources. We are steadily tapping into this demand by leveraging synergies from the materials technologies of Hitachi Chemical and the storage device technologies of Shin-Kobe Electric Machinery Co., Ltd. In fiscal 2012, we established the Energy Devices & System Business Headquarters and the Energy Devices and Materials Development Center of the New Business Development Headquarters, putting in place a structure for targeting sharply growing demand in the industrial energy market. Hitachi Chemical is in a position to respond quickly to future trends and changes in the marketplace.
Human resources are our most important asset and the primary engine of growth for a corporation. The Hitachi Chemical Group has held Town Meetings since fiscal 2010 in the belief that it is essential for all of its employees to share, communicate and work together on the same fundamental management plans and business strategies. Executive officers from Hitachi Chemical visit business locations inside and outside Japan to hold workshops and exchange opinions with employees in a face-to-face setting. We hope to provide employees with a deeper understanding of management through these dialogues. The Hitachi Chemical Group’s ratio of overseas sales to total sales has grown to more than 46% and the total number of employees now almost reaches 18,000 people. We must equip our employees with the knowledge and skills necessary to compete on the world stage, and allow them to grow on their own through trial and error. We strive to nurture these kinds of employees, which we call World Class Professionals (WCPs), through a variety of educational programs. In fiscal 2012, we launched the Global Coaching Program as a part of efforts to promote dialogue across organizational boundaries, and introduced KT Method training programs at overseas group companies.

Globalization has made it imperative that companies assess employees fairly without regard to their gender, nationality, or age and delegate work to the most capable people. Hitachi Chemical, for example, believes in providing local staff with opportunities to advance to a top position in their region as quickly as possible. In this context, the Company created a global personnel evaluation system in fiscal 2012, and deployed it at Hitachi Chemical and some Group companies in October 2013. The system is initially set up solely for managers, but will eventually be rolled out to all employees.

2012 marked the 50th year of operations for Hitachi Chemical, a major milestone. To commemorate this occasion, we held communication workshops for all group employees with the aim of sharing our vision of where we want to be 50 years from now. Through these workshops, we have planted the seeds for growth over the next 50 years, inspiring each and every employee to polish their ability to “create wonder.” These workshops were also an opportunity to provide more impetus for our Business Reforms, Organizational Reforms and Human Resource Reforms, as well as to shore up our foundation through workflow process reforms.

After much debate, our executive officers have drafted a message from management to hand out to employees at these communication workshops, explaining where we want the Hitachi Chemical Group to be in 50 years. Within this message, management wrote the following to summarize its ambitions for the next 50 years:

**EXPAND our business beyond “Chemical” to create value for future.**

While chemicals are currently our core business, this statement declares the kind of future we envision for the Hitachi Chemical Group as we step into new fields and offer optimal solutions for society and develop optimal solutions for yet-to-be discovered problems. When people of the future look back 50 years to us in fiscal 2012, I am convinced they will say “that is the year the Hitachi Chemical Group began to truly embrace globalization.”