

Creating a Growth Story for the Next 10 Years with the Lumada Business at the Core



Keiji Kojima
President & COO

Q You were appointed President and COO in June of this year. Can you tell us about your aspirations for this position?

For about 10 years following the financial crisis that began with the collapse of Lehman Brothers, successive management teams implemented drastic structural reforms to transform Hitachi into a global company. They took a number of steps to accomplish this, one of the most prominent examples was the restructuring of the company's business portfolio. Now that these structural reforms have had time to take effect and serve as the foundation for growth, we are approaching a business portfolio that is well-equipped for future success. My mission is to create a path for Hitachi's continued growth over the next 10 years based on this foundation. This is very satisfying and meaningful work.

Back when I was serving as CTO, Mr. Nakanishi, the former Executive Chairman, communicated a strong message to me when he told me that "the Social Innovation Business is Hitachi's core." This stuck with me and ever since I have worked to execute reforms at research laboratories worldwide to strengthen Hitachi's innovation capabilities. First, I undertook a major change in direction as I prioritized creating an R&D structure close to society and the customers. Specifically, rather than using the conventional approach of creating products as an extension of fundamental research and elemental technologies, I encouraged an approach of identifying social issues and back-casting from future forecasts to define our key research themes. Ever since we began the Lumada business in 2016, we have invested immense energy into expanding this business. Since my first encounter with database research, I have been confident that data was an immensely valuable resource which would be a driving force that could change the world. Now that we are approaching the final form of the business portfolio, we will create and follow a path in which the Lumada business serves as a driver for Hitachi to achieve the next stage of growth.

Q Please tell us about the direction and key initiatives driving the creation of the next Mid-term Management Plan.

To guide future growth, we must tie the assets acquired through large-scale M&As into a comprehensive plan to steadily increase corporate value. The key words in this regard are simplicity, digitalization, and globalization of management.

Hitachi's business can be separated into three main categories: IT, projects, and design/manufacturing. Management must be simple to ensure the efficient use of assets characterized by different risks and growth mechanisms. Acting with speed is also crucial in achieving continued growth that keeps pace with changes in the world at large. Finally, the effective use of digital technologies in management is key to increasing speed.

The structural reforms that Hitachi has implemented have been executed to achieve global growth. We are promoting integration with overseas companies that have recently joined the Hitachi Group, including Hitachi ABB Power Grids and GlobalLogic, and we are making a full-scale shift toward management from a global perspective. We are building an operational structure that will enable us to demonstrate effective Group synergies, while at the same time preserving the speed and culture of a top global company. To do this, even as we press forward with the globalization of existing Head Office functions, we will further accelerate growth by establishing smaller global corporate functions in each region to complement those Head Office functions.

Q You said that the Lumada business holds the key to growth. How much progress do you think has been made toward realizing the future vision for this business?

To me, the starting point for Lumada is co-creation with customers aimed at resolving social issues. When we began Lumada, we said that researchers would share social issues with customers and undertake co-creation to resolve those issues, and then transfer the insight gained from these frameworks and systems to the business side, to provide them in the form of the Social Innovation Business. Up to now, we have expanded co-creation-style SI with a particular focus on the IT sector and have used this approach to vigorously promote the Lumada business. The IT sector has grown to the point where it currently generates about half of Hitachi's income, but it only accounts for about 20% of sales. Our next management goal is to accelerate the digitalization of project and design/manufacturing assets, which account for most of the Hitachi Group's sales. Digitalization is moving forward in businesses that demonstrate a strong affinity with the Lumada business, such as the Building Systems Business Unit. However, from this point onward we will go one step further, placing all of Hitachi's businesses on the Lumada platform to accelerate growth. In addition, we need to promote full-scale globalization, mainly through Hitachi Vantara, which drives the Lumada business on a global scale. In that sense, I would say that right now, we have achieved 30% or 40% of our "aspirations."

Hitachi ABB Power Grids, which we acquired last year, is positioned not as a business in the Energy sector but rather as a core business that supports the environment, one of

the three fields where we can demonstrate growth through Lumada. As we move forward toward our goal of carbon neutrality for the Hitachi Group as a whole, Hitachi ABB Power Grids has an important role to play as a crosscutting business that creates synergies with all sectors. GlobalLogic is similar in that its business demonstrates great value and synergies with all sectors. We will link these newly secured resources with all our businesses while working to accelerate global expansion and growth in the Lumada business.

Q Moving forward, what are the main markets and fields where you expect to see the most growth in the Lumada business?

The markets where I expect to see the most growth are North America and India. North America—particularly the United States—is investing aggressively in infrastructure, and various domestic industries are seeing a recovery, so I see this as a growth market with huge potential. India, which has become the world's largest source of digital talent, is also a key area that we approach alongside North America as we work to expand the Lumada business. Japan also has many companies that create outstanding products, so I think this market has great potential as well.

The sectors that demonstrate the greatest growth potential include the Industry sector and the Smart Life sector, especially the field of genetic engineering, which includes regenerative medicine and iPS cells.

Q In closing, please tell us President Kojima's guiding principles, and give us a message for stakeholders.

Hitachi's core principle of contributing to society through the power of technology remains unchanged. With that in mind, I will continue my unwavering efforts to maintain a bird's-eye view of all technological innovation as it unfolds—not only Hitachi's technologies but also technologies in completely different fields—and to constantly monitor those trends. This approach has been shaped by my own pride as a researcher.

I can declare without fear that we will undoubtedly achieve our goal of recording "10 years of growth" moving forward, and I will embody in my actions the motto "Always follow through on your promises," which I once saw displayed at the Central Research Laboratory and which has become a central part of my philosophy. During this coming decade of growth, one major theme will be to enhance returns to all stakeholders, including shareholders, investors and employees. My goal is to gain people's understanding and support by communicating my own thoughts on matters such as growth strategies and to comment on the progress of those strategies in a transparent and easy-to-understand way.