

## CEO Message

# Strengthening Total Support Capabilities by Asking, “How Far Can We Go With the Construction Machinery in Operation Around the World?”

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[Our Business Environment]

## Agile Management in a Turbulent World

Amidst the turmoil caused by the COVID-19 pandemic, the invasion of Ukraine by Russia has only added to the complexity of the world. The effects of the Russian-Ukrainian crisis have had a major impact not only on the countries concerned, but also on our business, with repercussions spilling over into a variety of other areas, including energy price hikes, financial market instability and food insecurity.

Looking at these changes from the short- medium-, and long-term perspectives, we must carefully consider and execute our next moves. In other words, we must operate our businesses with *agility*. Agility, however, requires a well-balanced combination of brains, heart, and physical strength. To lack any of these

elements, means we will be swallowed up in the great whirlpool of social change. We feel a strong sense of urgency.

And we have a long history of overcoming such difficulties. For example, looking back to the 1990s, when our group was focused on the domestic business, we were impacted negatively by the Asian economic crisis. However, driven by the desire to be proactive in controlling the damage caused by the economic crisis, we expanded our business overseas, building a network of distributors and factories across Asia.

I am proud to say that the spirit of taking on challenges, turning adversity into opportunity, has taken root in our organizational culture.

[North, Central and South America Businesses]

## Taking on the Challenges of the World's Largest Construction Equipment Market

One of the major changes in our group is the start of full-scale independent expansion into the North, Central, and South American markets in fiscal 2021. As is well known, the North, Central, and South America market is the world's largest for construction machinery, accounting for about 40% of global demand. This market is also the world's largest for mining machinery in operation. For example, the European market is dominated by construction and small construction machinery used in public works projects, as well as in the construction of buildings, homes and other structures. The region only has a limited number of mining machines in operation. Australia, on the contrary, is a market for large mining machines used in resource mining and other applications. In comparison, North, Central, and South America rep-

resents a large-scale market active for all types of construction and mining machinery.

However, we have not performed well in North, Central, and South America historically. Under our business alliance with major U.S. agricultural machinery manufacturer Deere & Company (Deere) in 1988, we were responsible for product development and production. Deere was responsible for sales and service, which prevented us from providing our own sales and service operations. In the beginning, customers were satisfied as long as their equipment performed well and was of good quality. But as customer needs shifted dramatically from products to services, we were faced with the increasing requirement to identify customer needs on our own, providing products,



technologies and services directly and in a timely manner using machine operating information. After repeated discussions with Deere, we decided to dissolve the joint venture agreement.

We began the full-scale expansion of our own business into North and South America in March 2022. This independent

expansion has been a long-held dream of ours. We opened a new door, but now the real work begins. It will be important for us to listen to customer issues and work as a team to find solutions. But I believe that Hitachi Construction Machinery employees can meet this task.

[Shared Group Value Standards]

### The Three Cs Supporting the *Kenkijin Spirit*

The *Kenkijin Spirit* is a value standard and code of conduct shared by the Hitachi Construction Machinery Group. The *Kenkijin Spirit* was born in 2004, when overseas sales began to rise, as did the ratio of foreign nationals among our employees. When Japan was our main market and our group consisted mostly of Japanese employees, we relied on tacit communication in which details were understood without being spoken. But as overseas sales exceeded half of total sales, and the ratio of overseas employees also increased, we found it difficult to achieve consensus in meetings and other occasions based solely on the Japanese approach. We felt the need for a common key phrase that would overcome the language barrier and serve as a grounding point to improve strained relationships.

Many employees in Japan and overseas discussed their opinions over a period of months, after which we came up with a clear statement of a shared global mindset in the form of the *Kenkijin Spirit*. The three Cs of the *Kenkijin Spirit* are defined as: “Challenge (pioneering spirit),” “Customer (being individual cus-

tomers oriented)”, and “Communication (openness)”. Just as there are 100 different issues faced by 100 different customers, we must listen carefully to what our customers want, communicate and take on the challenge of solving their problems. As you see, the three Cs do not exist in isolation. Rather, the *Kenkijin Spirit* exists as the interrelation of these elements.

Each employee must always ask whether they are truly putting themselves in the customer's shoes, putting the three Cs into concrete actions. Without practicing this idea on a daily basis, it would be a challenge to achieve a *Kenkijin Spirit* organizational culture. For example, we sponsor an activity called the Kenkijin Seminar. An employee once mentioned to me that they worked in procurement, so they never spoke directly with customers. My response was that the end customer is not the only customer. All the people we interact with on a daily basis are also customers. I believe it is important to communicate this message through opportunities like this.



Meeting With Employees of the Hitachi Construction Machinery Australia Gunnedah Branch



[Organizational Structure Reform]

### Business Unit Structure Strengthens Individual Customer Orientation

As we began our independent development in the Americas in April 2022, we reorganized into a business unit system that embodies the *Kenkijin Spirit*. Prior to this, our organizational structure was divided into functions under development, production, procurement, sales, and service. While this organization was effective in terms of efficiency, we felt unsure whether customer needs were being conveyed to development and production, and whether we explained our intentions to customers in a timely manner. Therefore, we changed to a system based on business units. Here, each unit head makes decisions regarding everything from development to sales and services, listening to and incorporating customer input.

As customer needs diversify today, we must become a par-

ticipating member of their businesses, or we will not be able to understand their vision. For this reason, our new organizational structure is more focused on the individual customer, from the aspect of each of their needs.

At the same time, this structure also has a tendency to pursue short-term goals. Therefore, our directors must be sure to lead the company based on a medium- to long-term perspective. I believe this is the role of the board members. We intend to keep a close eye on whether the approach and direction of each department is well-balanced, whether funds are being used efficiently and whether the right personnel are being assigned to the right jobs.

[Change in Capital Structure]

### Painting a Picture in North, Central, and South America Through New Alliances

Another major development in fiscal 2021 was a change in our capital structure. Much like our progress in North, Central, and South America business, this is a story we have been working on in parallel for about three years. Naturally, we talked with Hitachi, Ltd. about taking control of our own sales and services in North, Central, and South America. But to make this plan a reality would require a considerable amount of capital. A certain amount of inventory is required to build sales volume, so financing is also important. We also had to consider building a factory. We exchanged opinions with Hitachi, Ltd. about the best capital structure to facilitate quick decision-making to meet the expectations of our distributors and customers.

After these discussions, Hitachi, Ltd. announced its intention to sell 26% of its 51% stake in our company to HCJI Holdings G.K., a joint venture company between ITOCHU Corporation and Japan Industrial Partners, Inc. One of the main reasons HCJI Holdings expressed interest in Hitachi Construction Machinery was our ambition to independently tackle the North, Central, and South America businesses. The picture that Hitachi Construction

Machinery is painting on a blank canvas is what drew so much interest. For the Hitachi Construction Machinery Group, the ability to collaborate with ITOCHU in North America and other regions in areas such as finance will be a major advantage. Finance plays an important role in growing sales of construction and mining equipment. We see this change in capital structure as a positive development as we aim to increase our presence in the North, Central, and South American markets.

The dissolution of the alliance with Deere and the change in capital structure are two separate events that happened to coincide, but in my mind, they have always been linked. And behind this series of changes has been our goal to transform our business model to one focused on the value chain business, which includes not only new equipment sales, but also service, rental, used equipment, refurbishing and financing. And the reason we aim to strengthen our value chain business is to solve the problems faced by our customers. Everything is connected to this goal.



[Value Chain Business]

### Aiming to Generate 50% or More of Revenue From the Value Chain Business

Since fiscal 2016, we have pursued a policy of strengthening our value chain business. Our goal is to increase the share of revenue from the value chain business to 50% or more by the end of fiscal 2022. And expanding our business in North, Central, and South America will be a critical part of achieving this goal. For example, we offer a service solution, ConSite, to customers in Japan, Europe, Asia and other regions to monitor the operating status of machinery. If this solution becomes widespread in North, Central, and South America, we can obtain even further operating data. And we can create a virtuous cycle by applying this data to evolve ConSite further. This evolution will also lead to the growth of other services, including rentals, used equipment and parts remanufacturing.

What I hope to achieve is to extend the life cycle of machinery to maintain them in good condition. For example, we will buy used machinery that has been offered on rental in Japan for five years, and then sell it as used equipment in the United States. After another five years, including the installation of refurbished parts, we will then sell the equipment as remanufactured machines to customers in emerging economies such as those in Central and South America. Leveraging our strengths as a manufacturer, we not only repair the equipment but also improve functionality. In this way, construction machinery that would otherwise be discarded after 10 years can be used for 15 years. And we will have the opportunity to continue providing services to our customers during that time.

In addition to the parts remanufacturing we performed in the

past, in fiscal 2021, we began a new initiative to take hydraulic excavators submerged in typhoon-related floods back from customers and refurbish the entire chassis of the machines. This is a very interesting idea, but such ideas can only arise if we keep our ears to the ground and in close proximity to the front lines of our business. These activities will lead to more value chains, allowing us to continue providing a wide range of solutions and services to our customers.

Today, Hitachi Construction Machinery has approximately 300,000 units of construction machinery in operation in more than 100 countries around the world. Extending service lives will enable many of these machines to remain in active use. There are also benefits to be had when considering the environmental issues with respect to circular economies. Customers can enjoy the use of new, used, and rental equipment, while making more efficient use of construction machinery for a longer period of time. For us, this is also a point of differentiation from competing manufacturers.

We believe the sales composition ratio of the value chain business in terms of circular economies is not simply an indicator of performance, but also proof that our customers and society recognize the efforts of the Hitachi Construction Machinery Group. At 40% in fiscal 2021, we feel we still have more work ahead of us. By developing our business firmly in North, Central, and South America, we will bring this ratio closer to 50%. The important point for us is to work together with our customers to solve not only their problems, but also issues in society.



[Human Capital]

### Openness Makes the Most of Diversity in Human Capital

We must also consider diversity and inclusion in terms of organizational issues. At first glance, it may seem that our base of human resources is becoming more diverse. We employ people from more than 30 different countries, and the number of women in management roles is increasing. However, it is also true that we have many areas to review to determine if we are making the highest use of our diverse human resources.

Specifically, we believe that individuals must become more capable and responsible. Ideas that die on the vine will never lead to organizational growth. Rather than pursuing short-term numbers and the percentages for ostensible diversity, we must

foster human interaction to stimulate growth, or in other words, we must pursue essential communications.

To this end, we implemented an annual meeting beginning this year with each regional manager to provide an avenue for communications. The Hitachi Construction Machinery Group employees nearly 30,000 people. I want to reaffirm my commitment here to communicating my thoughts to the very front lines of our businesses and to learn what is happening on the ground. In this way, I hope to establish openness in the truest sense of the word, making the most of our diverse base of human resources.

[To Our Stakeholders]

### Working Together With Customers to Create Sustainable Societies

We have never changed our basic recognition that our Hitachi Construction Machinery Group businesses are essential businesses\*. Customers who use our construction and mining machinery are also involved in essential businesses. Therefore, it is of utmost importance for us to be diligent in selling, renting and repairing customer equipment to ensure smooth business operations for our customers.

Our banner mission is to watch over construction machinery. But the more a machine is used, the more likely it is to break down. The older a machine, the more likely mechanical issues arise. To maintain a close watch on these machines, we must develop systems to obtain information, to train people and to build a support mechanism — all treated as a comprehensive

set of services. This is a big challenge. But we have no intention to quit and will continue to pursue this ideal. Because this is our mission.

We must go even further in strengthening our total support capabilities, asking, “how far can we go with the construction and mining machinery in operation around the world?” To this end, we will communicate with customers and take on the challenge of working together to create sustainable societies. And, through trial and error, we will continue to make steady progress.

\*Businesses that are indispensable to daily living