



Message From the CEO

# Fulfilling Our Mission and Responsibilities as an Essential Business That Supports Society

Interviewer: Hidemi Tomita (Lloyd's Register Japan)

**Q** In fiscal 2020, the spread of COVID-19 led to major changes in social structures, including business practices and lifestyles. Please tell us your honest impressions of the past year.

**I feel that there is an even stronger need to address customer issues of improving safety, increasing productivity, and reducing lifecycle costs.**

Fiscal 2020 was a year that saw changes in the values of the Hitachi Construction Machinery Group (the Group) management and employees, including myself, as well as our customers. To be honest, I think this is a big change for us, as we are now faced with unprecedented events which we used to think were in the distant future. We saw the plain need to improve productivity, an

example being when a suspected infection temporarily halted a construction site and we suspended production for two weeks. But construction schedules must be met, so we have been forced to improve efficiency. Of course, efficiency is second in priority to the safety of on-site workers. In addition, as customer cash flows and business performance worsened, we received more requests than ever for reducing fuel costs and lowering other costs. The COVID-19 pandemic has strengthened our mission to solve customer issues of improving safety, increasing productivity, and reducing lifecycle costs.

**Kotaro Hirano**  
Representative Executive Officer, President, Director and CEO  
Hitachi Construction Machinery Co., Ltd

**Q** The global spread of COVID-19 has impacted supply chains tremendously, particularly in the manufacturing industry. I am sure Hitachi Construction Machinery has created business continuity plans (BCP) and prepared against risks. Has there been any impact on the supply chain?

**We reaffirmed our awareness of the supply chain in production activities and product supply, and we are striving to add strength in this area.**

Fortunately, our company has not suffered any direct disruptions to our supply chain due to the COVID-19 pandemic. However, the situation certainly caused us to reevaluate the risks to our supply chain. I view BCP from two perspectives. The first is to

maintain the supply chain as a production activity. We secure employment for our workers and meet the expectations of our shareholders by engaging in steady production as the Group, ensuring uninterrupted production activities and working in close coordination with our business partners. The second is to maintain a product supply chain. In other words, maintain a system that ensures our products, services, and rentals are always available when our customers need them. Especially during emergencies such as natural disasters, construction equipment is vital to recovery and reconstruction work. Even in times of crisis, it is essential that we maintain a supply system. With this understanding, we are developing our supply chain to be stronger than ever. This will ensure our efforts to support society are never interrupted.

**Q** We live in an era in which global climate change affects business in many ways. What do you see as the threats, risks, or business opportunities for the Hitachi Construction Machinery Group?

**We see global climate change and the push towards decarbonization as a business opportunity.**

Along with the COVID-19 pandemic, climate change risk is another global challenge facing humanity. But we would rather tackle these issues in a positive manner. In particular, we recognize that the growing need for decarbonization is an important business opportunity. Emissions regulations are becoming increasingly stringent; however, levels vary among countries and regions. We must understand the trends in environmental regulations as well as the issues faced on-site by our customers if we are to propose suitable solutions.

For example, we have a lineup of electric construction equipment and experience with supplying trolley-powered dump trucks for mining that run on electricity from overhead wires. We recently agreed to collaborate with ABB Ltd., which is a company that possesses strengths throughout the mining process, including mining equipment management systems. Together we will continue working toward achieving net zero emissions in all aspects of mining. We not only sell environmentally friendly construction and mining equipment, but we are also entering a new

area of business that includes infrastructure.

Also, as fuel consumption and efficiency varies greatly depending on the operator, we focus on customer data to propose suitable solutions. The Group uses ConSite<sup>®</sup> Mine, a solution that incorporating IoT and AI to solve issues at mining sites. We also use an operation management system to improve the operating efficiency of our products and reduce CO<sub>2</sub> emissions during use. In other words, we achieve our own goal to reduce machine CO<sub>2</sub> emissions while also achieving customer goals by proposing CO<sub>2</sub> reductions and total efficiencies in construction and mining machinery operations.

The global trend in decarbonization is hastening the move toward the elimination of coal. We believe our duty is to reduce the CO<sub>2</sub> emissions of machines operating at coal mines as much as possible to both decarbonize and fulfill our social responsibilities. On the other hand, it is still important to focus on the so-called hard rocks, meaning areas that produce iron ore, copper, and nickel. In future, we plan to expand sales of mining machinery in the same regions in which they are produced, such as Central Asia and CIS. We also intend to increase sales related to the hard rocks, thereby reducing our reliance on coal-related businesses.

In light of the regional trends around the world, the Group will partner with customers and fulfill our mission to offer optimal products and solutions that help customers reduce CO<sub>2</sub> emissions proactively.



**Q** The concept of a circular economy, which aims to achieve economic growth by recycling resources in a sustainable manner, has been attracting greater attention. What is the concept behind the movement to build a recycling-oriented society?

**We aim to achieve a circular economy by focusing on the lifecycle of construction equipment and by providing optimal solutions that increase efficiency.**

Our rental and parts remanufacturing businesses will play a major role in building a recycling-oriented society. From the perspective of efficient use of limited resources, customers may find it more efficient to rent certain machines, rather than own, depending on the volume of work. Also, instead of using new parts for repairs, we use recycled parts collected from current customers to be used future customers. These practices serve as a model for resource recycling and help customers reduce their parts costs.

We call this our value chain business. It is the business of providing optimal solutions throughout the entire lifecycle of a machine. We are proud to say that the Group has the systems in place to achieve an efficient lifecycle for construction and mining machinery. By delving deeper into this value chain business, we hope to achieve a circular economy for the environment and business.

**Q** The number of human rights cases, including cases involving the supply chain, has increased in recent years. These cases include the treatment of foreign workers and gender discrimination in advertising. Corporate ethical standards and responses have come under greater scrutiny. What are your thoughts on the risks surrounding human rights abuses?

**We are striving to establish a due diligence system as quickly as possible to identify and respond appropriately to human rights risks.**

The Group recognizes that responding appropriately to the risks of human rights abuse is essential in continuing to be a global company that is trusted by our customers and society.

To date, we have investigated the risk of human rights abuse in business by participating in the Human Rights Due Diligence Working Group organized by Hitachi, Ltd. In fiscal 2020, the Group established a system to conduct due diligence for potential human rights abuses. As a first step, we held a Human Rights Due Diligence Promotion Meeting in May 2021, attended by relevant executives. The main session of the meeting discussed our survey on the status of forced and migrant labor and the distribution of the survey to suppliers. Going forward, I will be in charge personally to direct the survey, which we plan to implement twice a year. As human rights abuses may change with changes in society, we will strive to identify priority risks and take appropriate measures on a continual basis.



**Q** The world is changing rapidly, and the construction machinery industry will be facing a period of change in the future. What strategies do you have in mind for the Group?

**We support customer businesses by delving deeper through Solution Linkage®, which supports and monitors the operational status of construction equipment.**

In a rapidly changing world, such as the emergence of high-speed, high-capacity 5G communications, the business of construction and mining machinery is entering a new era. The stoppage of even one piece of construction or mining machinery due to a problem will affect not only customer work schedules, but also all related construction work. The Group business should focus not only on selling machines, but also on monitoring machines to ensure continuous operation. This is where IoT and ICT are indispensable.

The Group is developing a variety of services derived from Solution Linkage®, a name we give to solutions that utilize IoT and ICT to monitor construction machinery. For example, our failure prediction detection rate for major parts has now reached 75%. This enables us to provide customers with quantitative data to predict failure. In the past, predictions relied solely on the experience and intuition of our service staff. We believe it is important to provide solutions of this type to our customers to improve their work efficiency and asset management.

**Q** Your competitors provide services and solutions that emphasize intangibles rather than just products. What is the Hitachi Construction Machinery advantage in this context?

**We believe that our greatest strength lies in obtaining a firsthand understanding of customer issues and creating the best solutions.**

One feature of our business model is our focus on direct sales and services to customers by our employees. In particular, Japan, Asia, Oceania, and Africa take advantage of this direct sales and service model. We believe our strength is in how we get to the heart of customer issues through direct interaction. This is also a challenge in some ways. Face-to-face interactions can mean a face-to-face scolding from the customer. But I believe such experiences have nurtured our human resources and have formed the basis of our unique business model. Many ideas for new solutions are created through such direct interactions with customers.

**Q** Tell us what you discuss with your employees on a daily basis. What do you expect from them and what are your thoughts on human resources supporting corporate growth?

**As our employees work, I ask them to keep in mind the ideas of Kenkijin Spirit and the 3Cs, which are the common identities of the Group.**

The foundation of Group human resources development is the code of conduct we call the *Kenkijin Spirit*. This spirit is based on the 3Cs of Challenge, Customer, and Communication. We coined the term 3Cs in 2006. Until that time, our business was mainly in Japan. Since 2005, we have been doing increasing amounts of business overseas. Our number of non-Japanese employees has increased, making communication more difficult. Therefore, we called for a common philosophy that can be understood by people from any country, which is when we came up with the 3Cs. This is also important from the perspective of human resource development.

**Q** At the same time you developed a common global philosophy, do you see the need to address diversity in human resources. What initiatives are you implementing toward diversity?

**We are working to create a work environment in which anyone, regardless of age or gender, can play an active role.**

From the perspective of women's advancement, the percentage of female managers at the level of section chief or above currently stands at about 9% for the entire group in Japan and overseas. We plan to promote initiatives such as career development, continued employment, and return to work to increase the number of opportunities for female employees. The number of women working at production sites is increasing gradually. I visited a company factory recently and witnessed a young female employee using a light and easy-to-handle power tool. I realized that these types of initiatives make it possible not only for women to work on construction sites, but also for senior citizens. Historically, workers reaching the age of 40 tend to experience a decline in physical strength. In the past, these individuals would have been transferred to less strenuous jobs, but if we can reduce the physical burden on workers, they can continue to work on-site as direct employees as long as they wish. In other words, reviewing how individual jobs are performed is important not only from the perspective of women's advancement, but also in terms of diversity, including age. This could lead to diversity on a much broader scale.



**Q** Last, do you have a message for your stakeholders?

**We will continue to supply the most suitable machines to our customers and contribute to achieving a sustainable society.**

Our customers are entities that use machines to develop and maintain countries, as well as to support production and social activities. The ultimate goal of our activities is neither to make nor sell machines, but to continue to supply the best machines and solutions that help our customers develop countries and regions, maintain their production activities, and sustain their efforts in supporting society. The results of our businesses lead to the building of roads, waterworks, and cities. Nations prosper and people's lives are enriched. This is the ultimate corporate vision of the Group.

I believe the Group business is essential. To achieve a sustainable society, we will continue to keep our value chain foremost in mind, providing machinery development, production, post-delivery services, and rentals. The Group is an essential business that continues to contribute to the creation of a sustainable society.

**In Closing**

In the midst of severe change, I found your perspectives novel and compelling in stating that the ultimate goal is not to manufacture or sell products, but rather to continue to supply optimal machines and solutions. It is wonderful that you make the effort to communicate this idea to your employees and inspire them to think about it. The Hitachi Construction Machinery business has always been an essential business, and I believe it will continue to be an essential business. I hope you will continue to be a close and reliable partner for your customers in creating a sustainable society.



**Hidemi Tomita**

Representative Director of Lloyd's Register Japan K.K. Having a deep history of practical experience in CSR management, Mr. Hidemi Tomita has participated in government committees and industry associations, as well as in international standards development processes. He provided an international perspective to support the ESG and sustainability strategies of numerous Japanese companies.