

Learning from Model CSR Companies: SDGs at the Heart of Hitachi's Business Strategy

To strengthen our own corporate social responsibility (CSR) initiatives, Casio seeks to learn from companies with advanced CSR strategies. For fiscal 2020, we invited Norio Masuda, Senior Manager of the Planning Department in the Sustainability Promotion Division at Hitachi, Ltd., to a dialogue with Noriaki Kimura of Casio's Sustainability Promotion Department.

Hitachi defines its Social Innovation Business as way to use Hitachi technologies to solve various social issues. This mission integrates efforts to achieve the UN Sustainable Development Goals (SDGs) into its management. Kimura and Masuda discussed Hitachi's management methods, innovative initiatives, and widespread employee engagement in CSR activities.



Building an organization that puts sustainability at the core of business operations

Kimura First, let me ask you about Hitachi's approach to sustainability and relevant organizational reform. In April 2018, your CSR & Environmental Strategy Division was renamed the Sustainability Promotion Division.

Masuda Under the leadership of our chairman and president, an Executive Sustainability Committee was set up in April 2017, and it began deepening group-wide discussions on Hitachi's sustainability strategy. One year later, we updated the name of the division to reflect that our sustainability initiatives are directly related to our core management systems. Although we had been conducting CSR in conjunction with our business activities, within the company, the term "CSR" tended to be associated with neighborhood beautification and charitable donations, and we wanted to break away from that way of thinking.

Kimura The term "sustainability" has rapidly gained importance since the UN set the global SDGs in 2015. With the growing awareness that CSR means contributing to the sustainability of society, in 2017 our CSR Promotion Department was renamed the Sustainability Promotion Department. Was Hitachi's launch of its Executive Sustainability Committee part of a major top-down effort at the company?

Masuda Yes. It began with our strongly motivated chairman, Hiroaki Nakanishi, and our president, Toshiaki Higashihara, who agreed with him. Instructions were then handed down to frontline workplaces. Even when he served as president, the chairman was promoting Social Innovation Business to help realize a sustainable society. The Social Innovation Business concept means working to solve social issues as part of regular business activities, and this same approach is found in the SDGs. However, the Hitachi Group's vision for sustainable growth by contributing to society had not yet been fully articulated in 2017. So the Executive Sustainability Committee began by creating a long-term strategy.

Kimura I hear that the committee is made up of senior management and BU heads.

Masuda That's right. The Executive Sustainability Committee is a forum for discussing sustainability itself separately from the regular management committee. It is chaired by the president and attended by the executive officers and heads of each business unit (BU). Sustainability Promotion Meetings were then launched under the original committee, and we assigned members who plan and operate businesses in each BU as the responsible persons. The aim is to combine business operations and sustainability activities by holding working-level meetings with the planners who play a key role in business strategy formation.

Kimura I think you have established a comprehensive management system. Departments in many companies often recognize the need to promote corporate sustainability and try to get support from executives. Hitachi must be a rare example of a company where sustainability is being advanced from the top down.

Masuda I agree. I think we were lucky to begin with a strong top-down effort. I transferred to my current department when the Executive Sustainability Committee was set up. When I heard the chairman speak passionately about sustainability, I knew that he was convinced that the growth of the Hitachi Group was completely in line with helping to achieve the SDGs.

Kimura Even people outside of Hitachi are well aware of your chairman's passion for putting the SDGs at the center of business operations, and I think that's fantastic. Were there any challenges in setting up the system for promoting sustainability?

Masuda There was uncertainty from many executives and BU heads when the president first explained the new company-wide policies for sustainability and SDGs. Later, representatives from my department visited each BU head individually for in-depth discussions. We asked them to appoint members for a working group from among the general managers and managers in the business planning divisions in their BUs. We also visited these members.

When I spoke directly with the heads of the BUs and the general managers and managers appointed to the working group, I found quite a range of opinions and enthusiasm levels. There were times when I felt resistance. By continuing the individual dialogues, however, we managed to build face-to-face relationships that made it easier for people to talk to one another, and this laid the groundwork for subsequent activities.

We aim to increase employee motivation across all company levels



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Kimura It's been a year since your Executive Sustainability Committee was created. What kind of effect has it had?

Masuda Although the effort to reach every one of the approximately 300,000 employees in the Hitachi Group is still going on, I think there has been significant progress in understanding among board members, BU heads, and the general managers and managers of the business planning division. Since Hitachi is a company with nominating and other committees, outside directors make up the majority of the board of directors, and they provide us with strict directives, in a helpful way. The non-Japanese outside directors in particular have been watching the company carefully, and they have become a major force for implementing initiatives. The recent trend toward ESG investment has also been a big motivating factor, and even the finance department is now noticing the importance of non-financial activities.

Kimura Recent changes related to CSR and sustainability are rapid and remarkable. Are you experiencing any issues with your current activities?

Masuda Going forward, we will need to focus on middle management. Our executives and BU heads have now developed sustainability awareness, and many younger employees already grasp the importance of sustainability. Employees from the millennial and younger generations are actively participating in our pro bono activities and CSR workshops. However, the key to our efforts lies with the mid-level employees who form the core between senior management and the younger generation. It is essential for this group, which leads frontline operations, to internalize the value of promoting sustainability and think about our business from a long-term perspective.

Kimura I really understand what you are saying. What is the best way to achieve that?

Masuda Our Chief Human Resources Officer told me that changing the employee evaluation system would be essential. I agree. This system tells employees what the company really values. No matter how much the importance of sustainability is communicated to employees, unless the evaluation system is changed to support this, the mainstay mid-level employees will not change their behavior.

Kimura I feel very strongly about that point too. You have to think about ways to enhance employee motivation. For a large organization like Hitachi, personnel evaluation is a vital way to make noticeable changes.

At Casio we hold an annual Sustainability Leader Meeting as a way to promote CSR efforts from the bottom up. By selecting sustainability leaders from each department within the company and regularly gathering about 100 people to provide intensive education, we aim to raise awareness across the entire organization. How does Hitachi promote bottom-up awareness?

Masuda It's a great idea to foster internal influencers. We held one-time sustainability workshops for each BU, but we don't have regular meetings like you do. I'd like to use Casio as a model in this respect.

Kimura We asked our sustainability leaders to share what they learned with the people in their workplaces, but even among these leaders there are differences in enthusiasm levels, which is a challenge. It is one thing to learn material in a seminar, but quite another thing to effectively communicate what you have learned to others. Now that the leader system has been established, the next issue will be figuring out how to produce results. It is important to create a mechanism that allows each employee to take ownership of CSR activities.

Committed to helping achieve the SDGs

Kimura Hitachi announced a new mid-term management plan in May. How does it relate to your sustainability strategy?

Masuda Our new mid-term management plan emphasizes social, environmental, and economic value. Social and environmental value is non-financial, and so was not covered by previous mid-term management plans, but is now being included for the first time. The new plan requires each BU to develop their operations with social and environmental value in mind. Although non-financial value is hard to measure, the president has asked that it be made as visible and quantifiable as possible.

Kimura What kind of specific measures and initiatives are you implementing?

Masuda The overall system is not in place yet, but two pilot initiatives have been introduced. The first is the adoption of an internal carbon pricing system for capital investment. By putting a price on carbon emissions within the Hitachi Group, we can anticipate the level of CO2 emission reduction from an investment, or we can select the most environment-friendly option from multiple investment choices.



Noriaki Kimura,
Sustainability Promotion Department,
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The second initiative is a question, added to internal proposals for new business investment or M&A, about how the project will help achieve the SDGs. Although the response to the question is qualitative, it gives those involved an opportunity to think about the social and environmental value of the proposal. Anyway, these are just preliminary efforts; we still need to think about how to develop the system as a whole.

Kimura Hitachi's commitment to SDGs is clear in the new mid-term management plan. What kind of investigation was carried out before making this commitment?

Masuda Hitachi is focusing on 11 of the 17 Sustainable Development Goals. That means the remaining six are not being addressed. This decision was made after much internal discussion. If you say that all the goals are important and try to adopt all of them, then the focus becomes unclear. Therefore, we divided the goals into two categories: those that support overall corporate activities and those that align with business strategy. The first category overlaps significantly with the latter. Take our water BU for example. Through our business strategy, it is working to achieve the sixth SDG, namely, clean water and sanitation. The BU must always keep goal numbers 4, 5, 8, 12, 13, and 17 in mind as well, since they support the Hitachi Group's overall corporate activities.

Kimura The Hitachi SDGs Report was released in 2018, the first report of its kind in the world. I read it with great interest, and I'd like to know how it came about.

Masuda The report was actually first prepared as an in-house awareness-raising tool. It explained the SDGs to the 300,000 group employees worldwide and outlined how the Hitachi Group would tackle them, while also describing the potential market expansion that SDG engagement could bring. Initially, the report was prepared only in English. Then, realizing it could also be effective as an external PR tool, we revised it so that it could be released both in and outside Japan. The business planning members were also involved in drafting the business examples featured in the report.

Kimura It's fantastic that the business planners also got involved. Having them explain their business initiatives in their own words must help to raise awareness within the company.

Masuda You're right. The completed report generated a lot of interest among the BUs, and we issued more than 10,000 copies of the Japanese and English versions combined. It has been especially popular with sales representatives who like to use it to explain their business areas to customers. On the other hand, just discussing the SDGs in a report can become somewhat superficial, so we have to be careful to avoid any greenwashing, or "SDG-washing." The important thing is to incorporate the SDGs into daily operations as much as possible, and not lose sight of their essential points. As a way to counter that, we have created the SDG Communication Guidelines and distributed them to the group globally. Employees are asked to contact the Sustainability Promotion Division right away if there is something they cannot grasp. To further enhance understanding of the SDGs, we ask frontline personnel to review not only the 17 goals, but also the 169 targets that explain how the goals can be achieved.

Fulfilling our responsibilities as a global company

Kimura I also wanted to ask you about human rights. I believe measures to protect human rights are extremely important for global business development, but they also present many challenges. How does Hitachi check that human rights are not being violated, especially in the value chain?

Masuda Although respect for human rights is one of our highest-priority issues, I think we are still only halfway toward this goal. Since the value chain is very extensive, it is difficult to monitor its furthest reaches all around the world. The Sustainability Promotion Division needs to work closely with the Procurement Division on this issue.

Kimura At Casio, our primary suppliers alone have relationships with about 1,000 companies. I guess you have more suppliers. When it comes to secondary and tertiary suppliers, the number increases dramatically, and the value chain extends even further than that. Whenever a human rights problem occurs somewhere, it is always the larger downstream companies that become the focus of attention, and they are more likely to attract negative publicity.

Masuda You are exactly right. Human rights issues are very complex and difficult to handle, especially for global businesses, where geopolitical issues are often involved. Even if the proper human rights measures are taken, some risk always remains no matter how careful you are. Therefore, we must do our best to minimize the risks. If a problem does occur, we are ready to explain to the world the level of human rights initiatives that Hitachi has implemented.

Kimura That's what I believe, too. It is extremely important to have measures in place. From the compliance standpoint as well, it's critical to steadily work on human rights initiatives and be able to show what the company has done. Finally, could you give us your assessment of our CSR efforts at Casio?

Masuda I think Casio is more consistent than Hitachi when it comes to social contribution efforts incorporated into management activities. Starting with your founding creed of Creativity and Contribution, you have always incorporated social contribution into your business practices. Casio is a company with good DNA that has maintained the principles of its founders who ran the company for decades. The philosophy has been faithfully passed on to subsequent generations of employees.

Kimura I think Casio is fortunate in this respect. The founders' aim to invent things to make people's lives better and more convenient can be seen as social contribution through the core business. This year marks Casio's 64th anniversary, and I think that way of thinking was part of our DNA before the term "corporate social responsibility" was even coined. While Casio still faces many challenges to improve its CSR activities, I hope we can strengthen our management while referring to the insights you have shared with me today. Thank you very much for this conversation.