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Initiatives in Governance, Diversity and Leadership Development

Hitachi aims to earn the trust of customers and the broader public as a leading global innovation partner, based on the development of digital solutions and global business. Working from an objective standpoint, the independent outside directors play an important role in supporting this process. Outside directors Ms. Cynthia Carroll (“CC”) and Mr. Hiroaki Yoshihara (“HY”), both of whom are extensively involved in the ongoing transformation at Hitachi, discuss its unique approach to fostering talent and promoting good governance as part of realizing this mission.

BUSINESS CONDITIONS AND CHALLENGES

Q. What attracted you originally to become an independent outside director at Hitachi?

HY: The two reasons I originally joined the Board of Directors of Hitachi four years ago were the company's strong leadership and its positive momentum.

Prior to that, I was a member of the Board of Hitachi Global Storage Technologies (HGST) from 2008 until it was acquired by Western Digital in 2012. In common with Hitachi, HGST faced a financial and operational crisis during that period. Mr. Nakanishi, current Chairman and director of Hitachi, Ltd. and the CEO of HGST at that time, led an impressive and rapid transformation process that I witnessed first-hand. The

turnaround took HGST from being the industry's worst performer to its most profitable player.

Mr. Nakanishi later became president of Hitachi. When I was asked to join the Board of Hitachi in 2013, the company was demonstrating positive momentum in its own transformation process led by him and his strong executive team.

CC: I was also attracted to the strong leadership of Hitachi. I was highly impressed with the vision of the management, the ambition to develop a more competitive, globalized business, and the strong determination of

top management to leverage the company's historical legacy. The thinking was long-term, but at the same time, they were looking for alternative perspectives and experiences to help Hitachi scale new heights.

Hitachi is an iconic brand. It is a phenomenal enterprise, given its global reach and the sheer breadth of its products and services, which are supplied by around 850 subsidiaries. The broad scope of the business made it an especially attractive proposition for me.

Q. In your view, what are the strengths of Hitachi and the challenges it faces in its global business development?

HY: Hitachi is blessed with many competitive advantages. The company is filled with many talented people, and we have a rich wealth of technological expertise. Most importantly, Hitachi's well-established corporate values of "Harmony, Sincerity, and Pioneering Spirit" have stood the test of time.

I think that good strategic execution has helped Hitachi to create strong positive momentum in recent years as we work to become a high-performing global enterprise.

CC: I agree that Hitachi has been successful in building momentum. We are more effective in ensuring that the decision-making is focused solidly on value creation.

To my mind, the fact that so many people spend their entire careers in this company is one of its strengths, because it reflects the tremendous loyalty and experience associated with the Hitachi name. In addition, the engineering and technical capabilities are phenomenal. Hitachi is unique, relative to other companies today, with its breadth and depth of young and long serving talent, in a position to build on the core values and established trust created over many decades.

HY: The direction we are taking is excellent, but speed is also vital. In that regard, I would like to see accelerated evolution in some aspects of business,

including faster rationalization of the business portfolio. Greater synergy between different parts of the business portfolio is another critical challenge, based on stimulating connectivity between business sectors.

That is partly what the Social Innovation Business is about. In my view, we should accelerate launching Social Innovation Business initiatives globally, while also deploying data and insight-driven strategies throughout the organization.



CC: Businesses today must be lightning-fast in their response to social change because of the greater speed of connecting in

the context of the twin trends of globalization and digitalization. We live in an age where products can rapidly become

commoditized, which means that we will often struggle to market or sell them using purely traditional approaches.

The core challenges faced by the business relate to innovation and commercialization. We need to be working in partnership with our customers and suppliers to develop products, services, and processes that represent original value.

In my opinion, we have all the capabilities to become a global leader in the industries where we compete but this takes collaboration within and across business boundaries.

CORPORATE GOVERNANCE REFORMS: DIVERSITY, LEADERSHIP, AND AUDIT INTEGRITY

Q. What value is there in promoting diversity? What is Hitachi doing to increase diversity?

CC: In general terms, I think diversity is critical to our future success. Diversity within an organization leads to diversity in terms of thinking and perspectives, as we always consider alternative approaches. Ultimately, it can lead to smarter business decisions and solutions.

In an area such as Social Innovation, if our products, services, and solutions are to meet the needs of a constantly evolving global society, we must understand that society in detail. For this reason, it is critically important for Hitachi to have a workforce that reflects society. Greater diversity in the workforce means that we have the right make-up of people to provide the necessary

alternative perspectives. Also, we cannot afford to leave out half the population if we want to develop the best global management talent.

HY: As CEO Higashihara has pointed out, I believe, actively targeting higher diversity enables Hitachi to develop better as a diversified global business. The company has set specific diversity targets, and we are making steady progress towards achieving them.

CC: To add some figures, women represent almost 17% of the Hitachi Group workforce, or roughly 44,000 people. Women are now about 27% of new hires, which is approximately double

the level that was being achieved in fiscal 2000. By these various indicators, I think we are making measurable progress.

The current target for Hitachi, Ltd. is to increase the number of female managers in Japan to 800 by fiscal 2020. Similarly, amongst executive and corporate officers, we are looking for 10% to be represented by both women and non-Japanese nationals by fiscal 2020—another major goal. This is quite an ambitious objective, but I think it demonstrates Hitachi's commitment to diversity.

HY: We also have measures in place to support the development and inclusion of women.

CC: Yes, I spoke at the Global Women's Summit in Las Vegas. Elsewhere, we hold diversity workshops such as the World Café Program, and we have a work-life balance month. Both are interesting initiatives, I think.

There is a lot of discussion inside Hitachi around supporting women who are working and raising children, for example by

adopting systems to allow flexible working hours, or using teleworking or virtual office arrangements. All these initiatives are managed within an overarching work style reform program called Work Life Innovation.

It's tremendously positive that we are considering these types of approaches to these kinds of issues. In addition,

Hitachi recognizes the importance of inclusion of men and women in the discussion about diversity as they together grow the culture internally.

HY: Cynthia has been addressing this issue extremely well for a long time. As the CEO of a leading global corporation, she is a role model in her own right.

Q. How is Hitachi developing its next generation of leaders?

CC: Within the pipeline of management talent, we work to identify and meet regularly with high potential candidates who are being considered for leadership positions. We try to ensure such individuals are challenged and developed appropriately. If, for instance, they have not worked outside of Japan, we try to place them overseas. Similarly, opportunities are created to help them gain experience of working in more than one business unit.

A lot of thought goes into this aspect of human capital development and the HR team is doing a phenomenal job of ensuring that gaps in experience of future management talent within the organization are filled through redeployment or redirection of people. It's about developing people for future leadership positions. The Hitachi Group has built a fully integrated human capital management platform to provide a global talent management framework.

HY: As directors, we also contribute to this leadership development process directly. It is important for personal development to have professional mentors. It is also vital to create a systematic process that helps senior managerial candidates to visualize where they might want to be in three or five years.

I remember in my earlier career benefiting from this kind of mentoring when I was working for an organization with headquarters in New York and London. I am always grateful for the help that I received from mentors to help me direct my efforts appropriately in developing my technical and leadership skills. I think the processes we have in Hitachi are helping to foster exciting career development pathways within our management talent pool.

CC: The directors serving on the Nominating Committee take a lead in the human capital development process. I am also personally involved in mentoring management talent.

Having served on multiple nominating committees with various multinationals, my view is that Hitachi has adopted a uniquely valuable approach to talent and executive development. It is highly systematic and proactive when considering executive development and succession.

For example, I have one-on-one discussions with mentees where we talk about what is going on in their work, the related challenges, and how they think about their career.

As independent outside directors, we also take the opportunity to address the young talent inside Hitachi by giving speeches to select groups and hearing personal feedback. They can communicate their perceptions about what they might see as some of the roadblocks within Hitachi, and this leads into a discussion about how to confront challenges in different ways, or how we see the future. It's an unusual approach for a big multinational, but very valuable in my view.

Q. What is special about Hitachi's audit processes?

HY: Hitachi uses a “tripartite audit” approach that demands strong, cohesive coordination between the Audit Committee, the Internal Auditing Office, and the outside auditing firm.

Basically, the Audit Committee leads a team whose goal is to identify and address the various risks. The three groups share and update the identified risk data. We also spend significant time on collaborative audit planning, audit progress updates, and final reporting for financial, operational, and management audits. It's a fully integrated approach.

We make sure we have complete access to necessary information and people to accomplish the audit objectives. With the Hitachi Group extending to around 850 subsidiaries operating worldwide, there are a multitude of risks to consider, both domestic and overseas. We are fortunate that the people in Hitachi are generally receptive and open-minded, so we only need to ask once to be provided with whatever information we need.

With such a complex picture to manage, the commitment of Audit Committee members to each other is that we maintain open and honest communication in all committee discussions. The members are also extremely active on a global basis so that we can better understand the global risks faced by the Hitachi Group. This means getting involved in onsite audits across different operational sites worldwide.



CC: The approach is rigorous, but at the same time, it is extremely open and transparent. I think people are relaxed and feel comfortable to come forward with issues, which is the best way to help mitigate risk on a continuous basis. Having served on several audit committees, I believe Hitachi's approach is top of the class.

HY: Before I joined the Hitachi Audit Committee, it was already regarded as one of the best in Japan. Collectively, though, we are determined to improve and refine every aspect of the auditing function to reinforce oversight on a continuous basis.

As part of continuous improvement, our finance and internal audit departments evaluate the performance of the outside auditor each year. In turn, the independent auditors evaluate the performance of Hitachi's finance and internal audit departments. We make sure everything is fair and open so that the evaluation feedback is beneficial for facilitating improvements by all parties

involved in audit processes.

We are also considering the implementation of AI/IT-based audit tools to improve audit effectiveness and efficiency by enabling people to focus on the judgment and assessment side, rather than just collecting information.

Moreover, we seek to strengthen the Audit Committee and the internal audit functions, both central and in business units and subsidiaries, by identifying and developing talented people for relevant positions.

Naturally, all these efforts are time-consuming. We spend a lot of time monitoring the progress of audits to guard against surprises. If points of difference arise in audits, which is something you cannot avoid proactively, we address issues or implement any necessary controls for risk mitigation straight away.

Together with the final reporting, all this means that we meet on many occasions through the year with people from the internal and external audit teams and from finance.

FUTURE INITIATIVES

Q. In what areas should Hitachi strengthen to be a leading global enterprise?

HY: As I mentioned earlier, I think Hitachi has built up momentum in becoming a leading global innovation partner for the IoT era in the markets where we choose to compete. Yet there is still some way to go in terms of globalization because around half of Hitachi Group's revenue is still in Japan and there are still tremendous opportunities overseas.

I think the key is to continue to execute the strategy of business portfolio rationalization, while working to shift the internal mindset from product-centric to more customer-centric and society-centric. We also need to

develop global management talent based on continuing to promote greater diversity.

CC: As I have already mentioned, the changing landscapes in markets mean that technologies are changing every minute. We need to continually update our fact bases and refresh our strategies, focusing on those businesses that are going to substantially add value over the long term. We need to be truly disciplined about spending money where value will be created. Everyone has a role to play in contributing to the bottom line. The market

dynamics necessitate being flexible, responsive, creative, efficient, and relentless in driving for performance. In addition, effectively marrying innovation and commercialization with the Social Innovation Business will be fundamental to Hitachi's value creation and ability to leapfrog our competitors. We are unique in our ability to combine infrastructure technologies with OT and IT applications and capitalize on the Hitachi brand, synonymous with leading edge technologies and engineering solutions.

Q. Looking ahead, what is your main aim as an independent outside director?

HY: Our primary role is to continue providing strong management oversight to ensure all corporate objectives are achieved for the benefit of all Hitachi stakeholders.

Management is about making the tough decisions, and that is why oversight is so crucial.

Considering the volatility and uncertainty inherent in global business conditions, I think we must pay special attention to global risks. At the same time, we need to exert a positive influence on management to support the execution of high-quality global growth strategies.

Practicing open and honest communication during the Board and Committee discussions is another important element. Diversity and open

exchanges of ideas are essential for fostering a better environment to help manage the highly diversified business that is the Hitachi Group.

CC: I agree. As independent outside directors with an independent voice, our role is to lend support to the CEO and the executive team, to stimulate debate, to challenge, and to discuss opportunities, with the ultimate aim to enhance shareholder value in delivering on our performance commitments. We are also working to support One Hitachi, building a culture of innovation with partnerships across businesses and with customers to capture synergies and expertise globally.

I will continue to work to embed the global leadership mindset through my interactions with young talent and executive candidates, both men and women.

Hitachi has sound moral and good governance structures. With the right systems in place, we need to execute the correct business strategy while developing talent for today and the future so that we can deliver on our promises to our stakeholders with the ambition of becoming a global leader in our industries.