

Technotalk

Global IT Service Creating New Value from Locally-based Perspective

Kumi Yokoe, Ph.D.
Setsuo Shibahara

Former Senior Visiting Fellow at the Heritage Foundation
Corporate Officer, Hitachi, Ltd., Chief Strategy Officer, Chief Operating Officer of Systems & Solutions Business, Information & Telecommunication Systems Company, Hitachi, Ltd.

Alongside many other companies that are expanding their operations overseas, Hitachi has embarked on the global rollout of a new IT service business. Rather than simply supplying products as it has in the past, Hitachi's aim for this business is to contribute to society through its activities on a global scale by also combining a high level of technical capabilities in information and telecommunications, and supplying added value throughout the value chain (including B to B to C). The essential requirements for achieving this include having locally-based operations and recruiting and training personnel who are familiar with the culture and practices of their particular regions. Through the rollout of this global IT service, Hitachi intends to propel its Social Innovation Business forward while also creating new value and helping expand customer businesses.

What is the Global IT Service?

Yokoe: The words “global,” “information technology (IT),” and “service” are all in common use, but put them all together and the result is an unfamiliar term. What sort of thing is this global IT service being introduced by Hitachi?

Shibahara: Hitachi has been in business for more than 100 years and, ever since its formation, has defined its mission as being to “contribute to society through the development of superior, original technology and products.” Based on this background, our Information & Telecommunication Systems Company aims to develop its business around a core of IT, treating “global” and “services” as its two indicators.

Here, “global” means operating our business on a worldwide scale, including Japan. “Service,” meanwhile, means supplying added value throughout the value chain, including “business to business to consumer” (B to B to C), rather than simply producing products and supplying them to customers. For example, Hitachi Payment Services Pvt. Ltd., a provider of payment services to financial institutions in India and acquired by Hitachi in 2014, has increased its income from service fees by handling on the customer’s behalf tasks extending from selecting where to site automated teller machines (ATMs) through to their maintenance and management. In this way, rather than merely producing and installing ATM systems, our aim is to create a higher level of added value by providing a total service that extends from cash handling to machine operation and

maintenance, and even encompasses services that our customers supply to end users.

Yokoe: I see. That involves a very broad scope of activities. Rather than just supplying products, it means contributing to society by sowing the seeds of new businesses tied together by IT.

Shibahara: However, when undertaking a venture like this globally, you need to keep in mind that it will be a very long-term exercise. In the case of activities that play a fundamental role in the society of a country or region, one example being the contract for a high-speed railway project that Hitachi won in the UK, the entire process, starting from negotiations with government agencies and culminating in achieving a relationship of trust with customers and acceptance by the public, can take more than a decade.

While the proportion of overseas sales at our Information & Telecommunication Systems Business is currently around 30%, we plan to increase this to 35% in FY2015. With Japan’s population set to fall in the future, I believe the global rollout of our IT service business is essential to the ongoing growth of our business.

Yokoe: Global IT service means the worldwide supply of products and services as a set. Is the supply of services on their own also a viable option?

Shibahara: Both approaches are possible. Whereas the desire to help society with products we made ourselves to reduce dependence on imports is believed to have been a powerful motivating factor when Hitachi was first established, however we are no longer concerned so much about whether we make the products ourselves

as long as we can still provide added-value services. In the case of the IT that ties products and services together, however, Hitachi's own technology is crucial. Furthermore, the people who operate and maintain services are not necessarily Hitachi staff, and the types of services required vary between countries and regions. Accordingly, rather than consisting of Hitachi on its own, the service organizations that undertake this work operate in collaboration with customers and vendors.

Yokoe: Hitachi has a well-established image as a manufacturing company. Within Hitachi, do services make up a growing proportion of your business?

Shibahara: Yes. That said, however, the proportion is still too low. The company-wide target is 40% of sales, and the target for the Information & Telecommunication Systems Business is 65% or more. Even for large IT vendors, we have reached a situation where it is impossible for a business that consists solely of selling products such as storage or computers to survive against intense international competition. In the case of storage, for example, there is a need to provide services that extend to managing data for customers. Doing so enables customers to focus on their primary business. We now live in an era that demands global IT services.

Hitachi's Strengths in Achieving "Products × IT × OT"

Yokoe: While the global IT business has a strong element of contributing to society, I am sure there are also difficulties that come from being a global business. This is because, overseas, it is difficult to become a participant in markets unless you have particular strengths to offer. In this respect, where do Hitachi's strengths lie?

Shibahara: Hitachi supplies many of the products required for the construction of social infrastructure, from

railway systems to electric power generation equipment, water treatment plants, and industrial machinery. A major strength of Hitachi is our ability to supply high-added-value services that fuse these products with IT and operation technology (OT). However, one of the difficulties in achieving this is the need to identify what is required to overcome challenges, while having a front-line presence and maintaining communication with customers in various different countries and regions.

Yokoe: In this sense, a strength of the Information & Telecommunication Systems Company is that you bring a fusion of products, OT, and other elements. That is, you have a particular skill for fusion businesses.

Shibahara: The Information & Telecommunication Systems Company has experience working on system development in close communication with customers through our work utilizing IT for things like boosting productivity, collecting and disseminating information, and managing customers, especially system integration, and I believe that we can take advantage of this experience in our global IT services. In the field of social infrastructure, where Hitachi's strengths lie, I believe our experience can prove extremely valuable, both in emerging economies where the prospect is for the installation of new infrastructure, and in countries such as those of North America where infrastructure is coming due for replacement.

Targeting Win-Win-Win Business

Yokoe: In other words, for a global IT service business that places a priority on communication with the local market, the key to success lies in how well you talk openly with local people and determine their needs. What specific actions are you taking?

Shibahara: One medium- to long-term initiative we are currently launching is the use of big data to supply



Kumi Yokoe, Ph.D.

Former Senior Visiting Fellow, Heritage Foundation

Graduate of 15th class at the Matsushita Institute of Government and Management. Past appointments include visiting fellow at Princeton University and The George Washington University and President of VOTE Japan Co., Ltd. Ph.D. in policy science. Publications include "Think Tanks in the USA—The Reality of the 5th Estate" (Minerva Shobo) and "Sum up What you Have to Say in Five Lines" (Business-sha Co., Ltd.)



Setsuo Shibahara

Corporate Officer, Hitachi, Ltd., Chief Strategy Officer, Chief Operating Officer of Systems & Solutions Business, Information & Telecommunication Systems Company, Hitachi, Ltd.

Joined Hitachi, Ltd. in 1982. Appointments have included General Manager of Public Solutions, Government Public Corporation Information Systems Division in 2003, General Manager of Government Public Corporation Information Systems Division in 2007, EVP, Hitachi Information & Telecommunication Systems Global Holding Corporation in 2010, and General Manager of Smart Information Systems Division, Information & Telecommunication Systems Company in 2012 prior to taking up his current position in April 2014.

services for telecommunications, transportation, environmental, and other fields through collaboration between our research and development divisions and subsidiaries such as Hitachi Consulting Corporation and Hitachi Data Systems Corporation. A specific example is a service program we are embarking on with the UK National Health Service (NHS) in the Manchester region for arresting the progression of diabetes in patients with this condition. This project began with our presenting the customer with scenarios that included a vision of what form hospitals and healthcare should take. It is not possible to develop scenarios like this when the idea is simply to supply products that match the customer's requirements.

Yokoe: This seems a perfect example of a win-win-win business that delivers benefits to Hitachi, to Japan, and to the country or region to which it is supplied.

Shibahara: As you say, with regard to its global IT service, the ideal model that Hitachi is aiming for is one that treats being of benefit to society as a prerequisite, with value being derived by providing benefits and this value then being shared among everyone.

Yokoe: However, in the case of B to B to foreign government (FG), it is likely that building a relationship of trust will take time, and when it comes to the use of big data, things like the country's laws on the protection of personal information and security measures will also play a part. Such endeavors are inevitably both circumspect and challenging.

Shibahara: Certainly, because social infrastructure has a close relationship with a country or region's security measures and other policies, these activities can be seen as very challenging. Also, because services do not consist of computers and management alone, with the region's culture and commercial practices also playing a major role, localization is essential. It is necessary to act in good faith and win people's trust by having a base in each market and taking a "local consumption of local production" approach to public relations and other activities.

Accordingly, Hitachi is proceeding rapidly with the establishment of local operations. Of our approximately 320,000 staff (including group companies), around 120,000 are already based overseas. We have also introduced "global grading" with a system for managing staff at the section manager and higher levels based on globally standardized appraisals.

Staff Recruitment and IT-based Support

Yokoe: You are using the global IT service to create

new value through the use of IT to horizontally link organizations, companies, countries, and societies. What are the most important factors in achieving this?

Shibahara: That would be human resources. Ultimately, the source of added value is not IT but people. Accordingly, the key to success lies in how we go about obtaining the people we need.

I also believe that using IT to augment the know-how of skilled workers is important in terms of providing people with support. For example, recognizing the aging of electric power distribution equipment at North American electricity facilities and the retirement of skilled maintenance staff, Hitachi has embarked on a business that develops enterprise asset management (EAM), equipment operation, and other systems in conjunction with Japanese power companies that have operational technology. This seeks to enable efficient maintenance through measures such as identifying signs of potential faults in advance or being able to query an operational knowledge database while performing maintenance work.

With regard to why we should choose to partner with Japanese power companies, this is because, whether it is in relation to the security of electric power supply, to maintenance, or to operation, it is these companies that have built up extensive practical knowledge of power generation, transmission, and distribution. We are not able to provide services with high added value on our own. This means that, in the case of a global business, people with workplace know-how are vital to the operation of service businesses with a scope that extends to consumers, and therefore collaboration with power companies is essential.

The aging of social infrastructure such as tunnels, bridges, and roads is starting to become a problem in Japan as well, and initiatives are already underway that will help improve the efficiency of periodic inspections, part replacement, and other maintenance tasks by using sensors for predictive diagnosis of deterioration. That Japan is adopting such a leading role in taking up the challenge of pre-emptive measures for dealing with aging social infrastructure is extremely significant, not only in the sense just of creating new service businesses, but also with regard to preventing the hollowing out of Japanese industry.

Yokoe: With a shrinking workforce due to our falling population, how to obtain human resources is Japan's biggest problem. The global IT service not only holds the prospects of Hitachi's own growth, it may also serve as a pioneering model for the economic growth and nation-building of Japan as a whole.

How to Contribute to Global Society

Yokoe: You spoke earlier of “local consumption of local production,” and I believe that local recruitment and the recruitment of people with a good knowledge of overseas circumstances are challenges for all companies. How specifically do you go about recruitment and training?

Shibahara: Hitachi is currently engaged in an ongoing program of mergers and acquisitions (M&A) in relation to its Social Innovation Business to make up for gaps in our business portfolio. A particular emphasis is on management consultants who deal with “upstream” processes (the early stages of projects) and have expertise in social infrastructure. Naturally, along with the acquisition of companies, we also recognize the importance of recruiting and training young people. Diversity considerations, including women, the elderly, and people of other nationalities, must also be taken into account when hiring.

First of all, accurately interpreting what customers require, and then reliably operating information systems that exceed these requirements while also fulfilling quality, delivery, and other commitments, can be seen as difficult business challenges, even in Japan. Furthermore, given obstacles such as language and culture, we do not believe it is possible to export the identical IT solution business we operate in Japan to overseas markets. This makes “local consumption of local production” vitally important. Furthermore, Hitachi’s Social Innovation Business can only expand if we have people who understand our corporate culture, know-how, and superior technology. In this sense, coordination with Hitachi Consulting Corporation and Hitachi Data Systems Corporation is essential.

Yokoe: In any case, the Information & Telecommunication Systems Company clearly has a major role to play in the vanguard of service globalization. I have come to appreciate how Hitachi’s global IT service is about presenting a vision, establishing common objectives with the customer, linking things together with IT, creating new value, and contributing to global society. I hold high expectations for future developments.