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How NEC turned a crisis into society-leading strategy

ESG Talk

HIROKO NAKATA
CONTRIBUTING WRITER

Facing crisis a decade ago, electronics giant NEC Corp. sought once again to define the social significance of its business. Since Japanese firms' top market shares in the fields of computers and semiconductors were gradually being eroded in the 1990s and the 2000s by their rivals in South Korea and Taiwan, NEC was forced to restructure itself by slashing its workforce, pulling out of its personal computer and smartphone business and making its chip sector a non-consolidated unit.

"We eventually reached the conclusion that the reason why our company exists is to transform our technologies to social values, not just to pursue technological evolution," said NEC President and CEO Takayuki Morita. "That's where our values originate, and we were convinced we could do that after looking back at what we had done."

Founded in 1899, NEC has seen the rise and fall of the Japanese electronics industry. The country's postwar rapid economic growth in the 1960s and the following economic and financial boom pushed NEC and other Japanese electronics makers to top global companies. In 1977, NEC's then-Chairman Koji Kobayashi expressed the new concept of "C&C" (computers and communications) for the first time at a telecommunications conference in Atlanta. The two kinds of business had not yet been integrated



Morita was appointed to CEO in April 2021
HIROMICHI MATONO

in the world technology industry, as they are today. Experts in the U.S. and elsewhere highly evaluated NEC as a good example of corporate strategic management with "core competence." In 1990, only NEC was ranked within the global top five in sales in the three fields of communications, semiconductors and mainframe computers.

But after achieving record sales of ¥54 trillion (\$50 billion at that time) in the business year to March 2001, NEC found its balance sheets hit by a series of negative factors, including the bursting of the internet bubble in 2001 and the emergence of global competitors in the computer chip industry. As computer technology evolved, NEC and other Japanese electronics giants were defeated in the global competition with the U.S., South Korea and Taiwan in the fields of semiconductors and home appliances. In the business year to March 2013, NEC's sales had dwindled by nearly half to about ¥3 trillion.

The turning point came in 2013, when NEC declared it would transform itself into a company creating social values. Ahead of the proclamation, the management team, including Morita, defined the corporate purpose as "creating the social values of safety, security, fairness and efficiency to promote a more sustainable world where everyone has the chance to reach their full potential."

Morita, who was appointed to CEO in April 2021, said he has confirmed the rightness of the corporate purpose, particularly for the past year, when society experienced increasing uncertainty caused by the pandemic, climate change and geopolitical risks caused by the Ukraine-Russia war.

Morita said that since technology is coming to play a huge role in our daily lives, information technology companies with ample expertise like NEC must point people in the right direction on how to make proper use of technology and how to protect privacy rights by contributing to global rule-making. Morita mentioned privacy rights because NEC has a global competitive edge in biometric authentication — technologies based



NEC President and CEO Takayuki Morita
HIROMICHI MATONO

on personal data such as facial or iris recognition, fingerprints and palm prints, voice recognition and the new technology of ear acoustic authentication based on the unique shape of each person's ear canal.

"Technology doesn't have colors. So how to use it depends upon us — human beings who have both goodwill and bad will," Morita said. When setting up rules on how to handle private information, it is crucial to introduce "opt-in" and "opt-out" policies because individual users must be the ones controlling their own private data, not the companies that provide platform services, he said. Big Tech companies and social-media platform providers should need to get prior

approval for collecting users' private data and then return control of the data to users afterward. "Technological advancement will probably make it possible in the future. Global rulemaking will be more and more important on what kind of data we use, when we use them and whether individuals approve them or not," Morita said.

To take the initiative in the rulemaking, what is necessary is "thought leadership" with expertise and insights in a certain field, the CEO said. Corporate leaders are responsible for guiding people with such leadership in the technology fields, where it often takes about 50 years for one technology to evolve, change the educational and social infrastruc-

ture, and have the maximum effect on the society. "We need to support the movement and help to accelerate it," Morita said.

The role of technology in our society has widened in the decades since the advent of the internet. Telecommunications technology has advanced to next-generation 5G wireless and will reach 6G in the future. Home appliances can now be connected to the internet, creating new services through the Internet of Things. Moreover, the internet enables us to make virtual copies of physical systems or products, called "digital twins."

In such a technology-driven society, Morita believes, it is important to have all kinds of stakeholders understand the shared vision about the future that NEC has outlined. He called such understanding "shared vision about the future." In a world of increasing uncertainty, what makes NEC different is people's appreciation that it is a company working for a better future for society based on goodwill, not one ignoring human rights to maximize its profits. "It will eventually lead to a difference in consumers' support and the outcome of business," Morita said. Sharing its vision of the future is important when NEC makes a long-term alliance with a business partner. Morita said his company's commitment to investment, research and development in the information technology field, as well as its stance not to harm society and human rights, was one of the keys to its tie-up with the world's largest global airline alliance, Star Alliance. In November 2020, they kicked off biometric self-service touch points at the airports in Frankfurt and Munich.

NEC also has made efforts to transform itself by integrating businesses and workers with diverse backgrounds. Since 2018, NEC has acquired three companies — British IT service provider Northgate Public Services Ltd., Danish IT firm KMD A/S and Swiss financial software company Avaloq Group AG — to further develop digital transformations for governments and financial services. Mergers and acquisitions also aim to take



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advantage of fresh ideas that contribute to innovative products and services. "Japanese companies tend to think M&A as something special. But in global business, M&A is one of the options that companies always have to consider," Morita said. In December last year, he told media outlets that it was possible for his company to invest ¥500 billion through March 2026, and this total includes M&A. "While we have to align with our partners in terms of a sense of values... the reason why we buy out these companies is not just to increase our resources or technologies but to make the best use of their fresh ideas in diverse perspectives," Morita continued. "Without that, it's not worth making an alliance." The policy on diversity also affects top management and recruitment. For the past several years, NEC has hired top executives from foreign firms. It also aims for 20% of its board members to be female or non-Japanese. Unlike traditional Japanese companies that recruit a large number of college graduates every year, Morita said the company already has started doing midcareer hires as well in a similar way, and starting from 2024 will make half of its hires among new graduates female.



The ESG Talk series are interviews with business leaders who are active proponents of ESG investing and practices in Japan.



Satoyama Jujo

Cooking shaped by Niigata mountains, history



TAEIKO TERAO
CONTRIBUTING WRITER

The Osawa district of Minami-uonuma in Niigata Prefecture has long been known for its outstanding rice. The hot spring resort Satoyama Jujo overlooks Osawa's rice paddies. The reception hall sits beside the resort's own paddies, and beginning each October, guests are served the new crop of local rice, including some planted and harvested by resort staff.

"Our main dish is white rice steamed in clay pots," chef Keiko Kuwakino said proudly. The water used to wash and cook the rice is Osawa spring water. It is a dish that distills the bounty of this area. At dinner, guests are served a taste of the rice the moment it is removed from the heat, still al dente. It is then allowed to sit with the lid on, softening, developing sweetness and forming a fragrant crust on the bottom. In this way the flavor and texture of the rice change over the course of the meal.

In between, heritage vegetables and other local ingredients shine. The dishes relied on the richly varied flavors that can be extracted from local vegetables and fish. This, too, is the bounty of the Minamiuonuma area.

Since she began working at Satoyama



Address
Satoyama Jujo
1209-6 Osawa, Minami-uonuma-shi, Niigata.
<https://www.satoyama-jujo.com>



SATOYAMA JUJO

Jujo eight years ago, Kuwakino said, she has learned much from her mentor, whose regular job is driving a taxi. She has learned when and where to harvest wild mountain vegetables, how to prepare them, and how to observe them from the time they sprout in spring until they wither back into the earth. She has learned to distinguish the male and

female varieties of certain plants, and knows it is important to leave the males unpicked for the sake of future harvests. This is wisdom that has been passed down for generations in a region traditionally isolated by deep winter snows. This restaurant poses anew the question of what it means to eat, and what delicious food really is.

HIDEYO HANAZUMI
GOVERNOR OF NIIGATA PREFECTURE



We are very pleased that Satoyama Jujo has been selected. Satoyama Jujo is a hot spring inn located at Osawa Onsen in the Niigata Prefecture city of Minamiuonuma that was started by Jiyujin Co. Ltd., which publishes the magazine Jiyujin (Free Spirit). Not only can you enjoy new local dishes that rethink traditional Niigata vegetables, but you can also enjoy an agricultural experience growing Koshihikari rice from Uonuma.

We hope many people will be able to experience the charms of Niigata food through the cuisine at Satoyama Jujo.

SHIGEO HAYASHI
MAYOR OF MINAMIUONUMA



I would like to extend my heartfelt congratulations to the restaurant Satoyama Jujo on being selected as one of the Destination Restaurants 2022. Satoyama Jujo is a new-style inn that repurposed and utilized thick beams and pillars from traditional folk houses unique to the snow country. Covered in 3 meters of snow in winter, our region has developed a unique food culture. We hope that you can come and enjoy our cuisine, while spending a fulfilling time in satoyama where you can experience the nature of the four seasons.

Premium Tottori Wagyu beef links up with contest Bocuse d'Or

ESG/SDGs

MAIKO MURAOKA
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Among all the wagyu brands in Japan, Tottori Wagyu Olein 55 is especially flavorful and light because of its high oleic acid content. Oleic acid, the main component of olive oil, is said to enhance the meat's tenderness and smoothness on the palate. To promote Tottori Wagyu brands, including Tottori Wagyu Olein 55, the prefecture held a gala event on Oct. 25 at Argento, a contemporary French restaurant in Tokyo's Ginza area, in collaboration with the renowned international culinary competition Bocuse d'Or, Argento and Hiramatsu, the hospitality company that runs Argento.

Tottori Gov. Shinji Hirai gave a welcome speech at the gala and introduced the charms of the prefecture's wagyu. He explained that it was Tottori that launched registration control of wagyu cattle about a century ago to keep track of their bloodlines. Among many kinds of wagyu entered in the registry, Tottori's Kedaka cattle — which won the first national contest organized by the Wagyu Registry Association in 1966 — became the origin of many of the wagyu brands that are currently produced across the country.

Among the beef cattle categorized as Tottori Wagyu, only about 16% meet certain standards and can be certified as Tottori Wagyu Olein 55. Those standards include oleic acid content of 55% or higher and belonging to the Kedaka bloodline.

The five dishes served at the gala were prepared by three award-winning chefs.



Tottori Wagyu Olein 55 TOTTORI

Two desserts using pears and persimmons produced in Tottori were the work of Argento. One of the chefs was Tomoyuki Ishii, the sous-chef of Argento and the candidate representing Japan to next year's Bocuse d'Or international competition in Lyon, France. He said in the opening remarks of the gala that there are many local delicacies in Tottori besides beef, and that shiitake mushrooms named Tottori 115 contributed greatly to his victory in the preliminary contest of the Bocuse d'Or.

Tottori supported this year's Bocuse d'Or Japan as a sponsor. Gov. Hirai said the significance of supporting the competition lies in the interactions with the talented chefs who have cooperated with in-depth research on ingredients that Tottori provided. "Their perspectives are different from those of the producers. They notice what we don't, which is a great benefit," he said. He also emphasized that communication between producers and chefs can provide clues as to how more value can be added to what the producers are growing.

The two other chefs, Hideki Takayama and Noriyuki Hamada, also have in the past been selected as Japanese representatives to Bocuse d'Or. The gala presented the remarkable opportunity to experience a feast prepared by three of the 30 or so Japanese chefs who have ever won the right to participate in the international competition.

Both Takayama and Hamada have connections with Tottori. Takayama, the owner and chef of the recently opened Kobe restaurant Entre Nous, said: "I served my apprenticeship under a chef who was from the Daisen area in Tottori Prefecture. From this experience, I got to know many producers in Tottori who are immensely committed to what they grow." Hamada, the executive chef of Hoshinoya Tokyo, said he himself is from Sakaiminato, a port city in Tottori.

Although all five dishes contained beef in different ways, there was no heaviness at all. The melting temperature of oleic acid is much lower than the other fatty acids in



Tottori governor Shinji Hirai with Argento chefs at the gala event TOTTORI

beef, which is the reason behind the melt-in-your-mouth texture and nongreasiness of Tottori Wagyu Olein 55. The beef and the beef soup went very well with the other ingredients, even the seafood, most of which were also produced in Tottori. The guests also enjoyed a selection of wines and sake made in the prefecture.

At Argento, the Tottori Wagyu Fair will be held until Nov. 20, serving Tottori Wagyu Olein 55 in the main dishes for the lunch and dinner courses presented by Argento's head chef, Kentaro Suzuki, who is committed to expressing the delights of Japanese ingredients as well as the producers' passion and the beauty of the places where the foodstuffs come from. Other dishes in the courses consist of various kinds of meat and seafood with flavorful autumn vegetables and fruits.

Dishes made with wagyu from Tottori can also be enjoyed at seven restaurants at The New Otani Tokyo hotel in Chiyoda Ward during a special event featuring Tottori Wagyu as an original wagyu beef brand until Dec. 16. Guests can enjoy the beef not only as steaks but also in a wide variety of Western, Japanese and Chinese dishes such as minced meat cutlets, stew, spaghetti Bolognese, sukiyaki on rice, thinly sliced Tottori Wagyu served on fried udon noodles, and spicy Sichuan-style tofu and ground beef.

Tottori is a member of the Sustainable Japan Network, a group of companies that cooperate with this newspaper in spreading information about sustainability in Japan. You can also be part of the network; scan the QR code for more details.

Destination Restaurants 2022 AUTHENTIC JAPAN SELECTION



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