

# Special Feature 2 Stakeholder Dialogue

Through dialogue with external experts having deep insights about stakeholders and their trend, we hope to help our stakeholders understand our initiatives and also improve corporate value by understanding expectations and evaluation from society and using it for our future activities.



## Toward integration of sustainability and management

In order for the HTS Group to grow sustainably with a society, what role should we play and what values should we create? What does society expect from us and how should we meet them? In January 2019, we invited three external experts to the head office for a discussion with our executives with an aim to gain an external perspective and reconsider the CSR promotion integrated with management.

External experts we invited	<b>Prof. Ken Kusunoki*</b>	Professor, School of International Corporate Strategy, Hitotsubashi University Business School		
	<b>Ms. Shizuko Ohmi*</b>	Vice President, Head of ESG Department, Amundi Japan Ltd.		
	<b>Mr. Peter David Pedersen*</b>	Representative Director, NELIS		
Facilitator	<b>Mr. Takehiko Mizukami*</b>	Cre-en Inc.		
Attendees from the Company	<b>Seiki Sato</b>	Senior Vice President and Executive Officer	<b>Kazuhisa Hatakeyama</b>	Vice President and Executive Officer
	<b>Yasushi Hagiwara</b>	Vice President and Executive Officer	<b>Hiromoto Fujitani</b>	Vice President and Executive Officer

\* Names of organizations and positions are as of the date of the discussion.

## Corporate value and social value will have “trade-on” relation in the long run

**Sato:** The HTS Group is now on the brink of a major transition amid significant environmental changes in the logistics industry. In 2016, we took a new step under the strategic capital and business alliance with SG Holdings Co., Ltd., and we must continue to be a company that values collaborative innovation and collaboration with various customers and business partners toward sustainable development. To this end, we believe it is important to obtain opinions of various stakeholders, and I hope to hear various opinions in today's discussion.

**Ms. Ohmi:** Investors are increasingly focusing on corporate sustainability in making investment decisions. Recently, responsible investments considering ESG (Environment, Social and Governance) are expanding globally. Such investment aims at increasing long-term corporate value by encouraging ESG initiatives through active discussions with the investee companies. Under such circumstance, we are extremely interested in your integrated strategy planned in the new Mid-term Management Plan.

**Prof. Kusunoki:** My area of expertise is companies' competitive strategies, and the major premise is the fact that “the most important thing for a company is long-term profit.” It means “making profit over a long period” and it may sound contradictory to ESG initiatives, but actually it is not. A company can make profit over a long period because

it provides something valuable, which indicates customer satisfaction. A company can protect jobs, give consideration to employees and meet shareholder expectations as long as it makes profit. A company can also make a big contribution to society in the form of tax payment.

**Mr. Pedersen:** Quite often, corporate profit and value provided to society are considered to be in a “trade-off” relation, but it is important to know that they will have a “trade-on” relation in the long run. If a company makes profit in an appropriate and sustainable manner and has a good impact on society, it will raise its brand value and attract talented human resources and capital. Then, the company can make further growth and get involved in solving material issues in the market and society. Creating such relationship of upward spiral is what we call a sustainability strategy.

**Prof. Kusunoki:** I agree. A shortcut for a company to make profit is to force employees, customers or suppliers to bear the burden. However, such method will work only for a short time and it will certainly trigger a backlash. In this sense, “trade-off” is merely a short-sighted approach. Instead, I want to emphasize that “A company should improve its earning power and pursue long-term profit to be able to provide values for society.”

## How to play an active role in solving social issues

**Ms. Ohmi:** From investors' standpoint, I'm concerned that quite a few companies develop a solid three-year management plan but they won't announce their longer-term vision. In fact, it is very important to have a long-term vision to support strategies. Especially because ESG initiatives cannot be explained with the short-term cost and return, it is difficult to set goals for ESG initiatives without medium-to-long-term vision.

**Hatakeyama:** The HTS Group is also generally operating under the three-year Mid-term Management Plan, and one of our issues is that we don't have a sufficiently workable long-term initiatives such as a ten-year plan. However, there are some movements not based on short-term profitability, such as investments in robotics-related research by logistics engineering division in preparation for labor shortage that is expected to become increasingly serious in five or ten years.

**Fujitani:** Recently, we have been working on work environment improvement in logistics centers nationwide. In specific, we are installing air conditioners in old warehouses, and this may be considered as one of the initiatives not based on the conventional short-term interests. Although installing air conditioners does not directly lead to profit growth, providing comfortable work environment is essential to increase satisfaction of people who work there.

**Ms. Ohmi:** I think such effort is important, considering securing labor force has been increasingly difficult. A company that cannot retain employees cannot grow sustainably, and employee satisfaction is one of the elements of supporting sustainability. If a company can visualize an increase in engagement of employees, it will increase the chance of securing skilled human resources.



Seiki Sato, Senior Vice President and Executive Officer



Ms. Shizuko Ohmi, Amundi Japan Ltd.



Prof. Ken Kusunoki, Hitotsubashi University Business School



**Prof. Kusunoki:** I hope that the HTS Group will become aware of initiatives from the viewpoint of CSV (Creating Shared Value) beyond CSR. While CSR is the cost that a company should pay as its responsibility, CSV that addresses social issues through business is an investment to generate long-term profit. Companies do not commit to anything unless it makes a profit from it, but if they expect profit, they will invest sufficient resources in it.

## To challenge new domains beyond logistics

**Hatakeyama:** Currently, the HTS Group has started a new challenge that goes beyond the conventional logistics field under our business concept of “LOGISTEED.” For further growth of the Group from a long-term perspective, it is essential to acquire functions that we did not have so far through collaboration beyond our existing business domains, including manufacturing, retail, IT and finance.

**Fujitani:** Our view is that a border of logistics will disappear in the future. In fact, we are seeing unprecedented movements such that major retailers having logistics functions entered into the logistics market. As we face such situation, we want to venture into a new realm by keeping logistics as our core domain, instead of simply protecting what we already have.

**Mr. Pedersen:** I believe such idea is symbolized by your future vision of “Global Supply Chain Solutions Provider.” The important thing is that the idea of “sustainability” is vital for it. The world is moving against the background of the conclusion of the Paris Agreement\*1 and adoption of SDGs. In the future society, companies placing little emphasis on sustainability will never be recognized as excellent companies. Companies must run business based on the “sampo yoshi (three-way satisfaction)” concept, here meaning that companies must consider sustainability of its own, its customers and society. Companies must have such standard.

**Ms. Ohmi:** I think you might want to explain in more detail about the new values represented by “LOGISTEED.” Your new marketing strategy of “Evolve into a SCM\*2 partner from a logistics partner” is also difficult to understand for outside parties. If you can clarify the strategy with a timeline, by showing, for example, the differences from the existing strategy, what is needed, and where to invest, investors will be able to see your competitiveness.

**Sato:** The HTS Group is a leading domestic company in 3PL and has “Gemba” power (on-site capability) and

**Mr. Pedersen:** I think the traditional CSR needs to be reframed. There are increasing expectations for companies’ innovative role in solving social issues. While it was all about eliminating negative values through compliance and risk management, companies will now have to create positive values aggressively from their main business.

technologies acquired through our experience in various industries and products over the years. One of our strengths is that we can provide systems in any process of a supply chain including warehouse management, transportation and delivery. However, the environment surrounding the logistics industry is rapidly changing, and as new technologies and players come out, it’s becoming difficult to maintain our current advantage toward the future. We want to break such situation and address various issues of a supply chain beyond the conventional logistics to pursue the next big leap. We set a concept of “LOGISTEED” with such hope. During the new Mid-term Management Plan, we will have specific plans through backcasting and carry them out.

**Prof. Kusunoki:** If you don’t want “LOGISTEED” to be just a fancy slogan but integrate it into daily behavior, I suggest you declare “things that you will not do.” For example, “the HTS Group aims at “LOGISTEED” beyond the conventional logistics company. So, we will not do such things as...” Good business knows that it’s not possible to make all customers happy and that it’s important to choose what to do and what not to do. This also means to clarify the areas on which the management resources will be focused, which will foster better understanding of “LOGISTEED” within and outside the Company.

**Fujitani:** It is very helpful to have a standard of “not to do.” It is not easy to declare such things as we do business with many customers. However, I understand that we have to commit ourselves to promote whatever we need to do with unwavering will.

\*1 Paris Agreement: Framework for international initiatives to deal with climate change starting in 2020 which was agreed at the 21st Conference of Parties to the United Nations Framework Convention on Climate Change (COP21) held in Paris in December 2015.

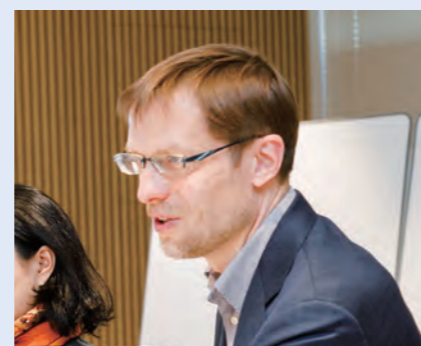
\*2 SCM: Supply Chain Management



Kazuhisa Hatakeyama, Vice President and Executive Officer



Hiromoto Fujitani, Vice President and Executive Officer



Mr. Peter David Pedersen, NELIS

## Strive to deepen activities based on four CSR objectives

**Mr. Pedersen:** To incorporate sustainability into a business strategy, there are certain innovation filters to pass. Such filters vary depending on industries, but I believe there are filters unique to the HTS Group in relation to four CSR objectives (refer to page 20) such as “low-carbon” or “resilience.” It is important to clarify such filters first.

**Prof. Kusunoki:** Among the four CSR objectives, the primary objective in terms of your main business is “Pursue Next-generation Industries and Lifestyles.” If you can further clarify and work on it with clear KPIs, you should be able to have a big impact on society.

**Mr. Pedersen:** To “Pursue Next-generation Industries and Lifestyles,” you will need to focus on not only domestic but also international logistics needs. For example, you cannot ignore potential in the African or emerging markets where population continues to grow remarkably. For another objective of “Realize Low-carbon Business Processes,” measures beyond your operation are required, and therefore you need to figure out how to involve customers

as “Global Supply Chain Solutions Provider.” Another important fact is that the international society is already moving from “low-carbon” to “decarbonization.”

**Ms. Ohmi:** As the HTS Group has been working on green logistics, I believe you can gain a competitive advantage in environmental fields. You can offer customers high added value if you can demonstrate “how much of CO<sub>2</sub> emission by a supply chain can be reduced by engaging the HTS Group for logistics services.” In order to show your strengths to investors easily, I want you to make that kind of effort. In addition, as mentioned in “Enhance Occupational Safety and Productivity,” matters related to people are also very important. Automation and labor saving may be measures against labor shortage, but I think using machines wherever possible can also contribute to increasing human value. It may be worth considering to appeal how the Group focuses on human resources including their upskilling as well as productivity improvement.

## Raise awareness within the Company and promote sustainability as “personal ownership”

**Ms. Ohmi:** Under the future vision of “Global Supply Chain Solutions Provider,” the HTS Group has various plans related to robotics, AI, Fintech and Sharing Economy, and already proceeded with some projects through various alliance. I think one of the issues to be addressed in the future is to clearly show those projects with a timeline, define KPIs and announce them along with financial guidelines.

**Mr. Pedersen:** In order to integrate sustainability with management, you have to obtain deep understanding within the Company. I suggest that you seek honest opinions about what the HTS Group can do under a big picture toward future and share ideas within the Company. If such efforts help raise awareness as a team and continue to improve the quality each year, it is wonderful. I hope that people in various positions within the Company will voluntarily get involved in these efforts and embark on innovation journey.

**Sato:** The HTS Group is now promoting activities called “VC 21 (Value Change & Creation 21)\*3” aiming at

improvement of profitability and organization power in all domestic group companies. Of these activities, we put emphasis on “promotion of ‘personal ownership,’” and we are starting to see some results as we continue these efforts. I think we should promote CSR and CSV steadily in relation to these initiatives.

**Prof. Kusunoki:** In order to share common awareness within the Company, the management may need to take the lead and keep sending a message that “the HTS Group continues to provide values to society under the concept of ‘LOGISTEED.’” I believe company-wide initiatives will succeed because of such persistent efforts.

**Hatakeyama:** I completely agree. If we keep telling them over and over, employees will start thinking “what we should do.” And we hope to improve their motivation from there. Also, all these opinions from you reminded us of the importance of long-term sustainability strategy, so we will keep that in mind. Thank you very much for joining us today.



Mr. Takehiko Mizukami, Cre-en Inc.



Yasushi Hagiwara, Vice President and Executive Officer

\*3 VC21 (Value Change & Creation 21): For details, please visit our website. [http://www.hitachi-transportssystem.com/en/ir/library/presentations/pdf/midtermmanagementplan\\_190524enR.pdf](http://www.hitachi-transportssystem.com/en/ir/library/presentations/pdf/midtermmanagementplan_190524enR.pdf)