Materials Manufacturers Pressed to Transform to Compete on the World Stage

I joined the former Showa Denko in October 2021, and with the launch of the new system in January 2022, I took on the role of CSO. The role of the CSO is to define what needs to be done to become a world-class functional chemical manufacturer and broadly promote the purpose of the integrated new company to change society through the power of chemistry.

With the full integration of former Showa Denko and former Hitachi Chemical, the scale of the Company has grown significantly. However, just because of this integration, the fundamental essence of the Company does not change immediately. To compete as a global company in the global market, not only the size but the content and quality must also change. To make Resonac a world-class functional chemical manufacturer, we need to identify any gaps with the world and chart a course to close those gaps through means such as reviewing our business portfolio, establishing a competitive business model, strengthening partnerships inside and outside the company, and reforming organizational operations.

This gap was not something that only became apparent after the integration. Looking at the history of the semiconductor and electronic materials industry, which we position as our core business, it is evident that Resonac must change.

I have built up my career at foreign-owned consulting firms, semiconductor and PC manufacturers, and Japanese semiconductor manufacturers. During this time, I witnessed the decline of Japan’s high-tech industry firsthand. Particularly in the semiconductor device industry, manufacturers are constantly merging, especially in the U.S., and I believed that the effects of this industry reorganization, such as negotiation power between customers and suppliers and technological concentration, would undoubtedly impact the surrounding ecosystem. However, I did not see any signs of this in the adjacent semiconductor materials industry,
and I wondered why, even though it should be compelled to transform as an industry to compete globally.

Then, at the end of 2019, news came of the merger between Showa Denko and Hitachi Chemical. I thought, "It’s finally here; it’s beginning." Later, I met the current CEO Hidehito Takahashi, and felt confident that our visions aligned. Driven by the desire to create a company that could compete globally, I decided to join. I was convinced that I could demonstrate my abilities in this environment precisely because of the merger with Hitachi Chemical.

**Concept of the Strategic Intelligence Required**

The key to our strategy is to transfer our technology and potential to the value of the actual applications in which our products are used.

The former Showa Denko had expertise in changing the physical properties of materials, having strengths in the upstream of the material supply chain. Meanwhile, the former Hitachi Chemical had strengths in the downstream, combining materials to create functions and offering them to customers. Being able to integrate material development and its combinations internally expands the options for optimizing product functionality. Moreover, understanding the downstream applications more profoundly allows us to direct development resources in a direction where added value increases. Understanding the entire supply chain is crucial in building a business model as it bridges the gap between the buyer’s value standards and the provider’s logic.

Regarding overall optimization as a company, until now there were business strategies for individual business units, but a comprehensive Companywide strategy had not been fully laid out. What was previously called a Companywide strategy was a bundle of individual business strategies with a simple addition of numerical aspects. To maximize growth and profit Companywide, it is necessary to intentionally decide which businesses to expand and which not to. For this reason, we’ve emphasized distinctions among business units, meaning we’ve clearly determined variations in the allocation of company resources across different business units.

In portfolio construction, we will focus our resources on the Semiconductor and Electronic Materials segment as our Core Growth business. At the same time, for products that cannot be expected to generate a certain level of profit on a regular basis, we will consider price increases or withdrawals and make business decisions accordingly.

I believe it is essential to incorporate the concept of strategic intelligence to execute this strategy. We will analyze and process intelligence obtained from internal and external sources and utilize it for strategy. At the same time, it’s also essential for the Company to proactively disseminate information.

As part of such efforts, we’ve set up a governmental liaison office directly under the Corporate Planning Department and started its operation. Semiconductors are a business that is very sensitive to geopolitical factors. It’s clear from last year’s supply chain disruptions that situations arise that can’t be resolved with just private company measures. However, despite our presence in the semiconductor materials market, we lacked the ability to consolidate our various government contacts and build stable relationships. For this reason, we have established a function to strengthen our connections with government agencies and to accumulate the knowledge and experience generated as a result on a regular basis as an organization.

**Scenario Planning for Intelligence Enhancement and Establishment of RHQ**

Furthermore, we’re also engaging in scenario planning to probe the potential impact of geopolitical risks in the future. Scenario planning involves constructing various scenarios from both long-term and short-term perspectives within teams. We estimate a wide range of impacts in terms of business impact and risk without bias, even for events deemed unlikely. We actually intentionally examine even those events seen as having a low likelihood of occurrence.

The essence of scenario planning is to prepare management for unforeseen events by conducting thought experiments on events that are not considered as an extension of daily operations, such as the costs and methods of response to anticipated impacts. An urgent issue was the impact on business from Russia’s invasion of Ukraine last year. In the semiconductor field, the effects of U.S.-China decoupling are already apparent, and we expect these effects to continue.

Although the scenario planning thought process is becoming widely known, few companies incorporate it as a regular activity. These efforts are essential for our long-term strategy of being a company that can compete on the world stage, and one of the ways we are further accelerating this strategy is by strengthening our regional headquarters (RHQ).

The background for establishing RHQs is the decentralization and diversification of business environments in each country and region in terms of laws, regulations, and business
practices. Rather than only controlling each region directly from Japan, it is also necessary to coordinate with each region’s unique business environment to find the optimal relationship. For this reason, we have set up four RHQs: in San Jose, U.S. as our North American base, in Wiesbaden in Germany as our European base, in Shanghai as our Chinese base, and in Singapore as our Southeast Asian base.

We are building a chain of command between Japan and each region, customizing operational policies in each region, and strengthening support in corporate functions. Additionally, based on the information from the RHQ, we will clarify how the headquarters will make decisions, or how the RHQ will make judgments promptly, establishing clear distinctions between their roles.

Positioning Sustainability at the Core of Management

Last year, the Company established three issues of materiality for sustainability as crucial management issues to ensure sustainable growth together with society. At the same time, we announced both internally and externally the policy that sustainability is at the core of management. This means that whether it’s a Companywide strategy or a management strategy, both exist to support the realization of materiality. Realizing materiality is the key to achieving our management strategy and long-term vision.

We launched the monthly Sustainability Promotion Council last year as a mechanism to realize materiality. The council is attended by all CXOs and business unit heads also participate once every three months. We have defined sustainability as a central issue that top management must decide upon, and a system has been established to discuss and make decisions on a wide range of issues, including carbon neutrality and human rights, within the Sustainability Promotion Council. We have set nonfinancial KPIs at the Companywide level based on materiality and discuss initiatives to implement them.

Achieving sustainability requires Companywide involvement. We have added sustainability items to the performance evaluations of all CXOs and business unit heads from this year.

Bringing the Resonac Brand of Functional Chemicals to the World

The company Resonac was born in January 2023. It was our second foundation. We have changed our company name from Showa Denko to Resonac, shifted from a diversified chemical company to a functional chemical company, and we want to convey to everyone around the world that our innovative management team is implementing company reforms. We are building our brand strategy based on this sentiment.

To be honest, although the name Showa Denko was somewhat known, many people didn’t know what the company did. To prevent this from happening for Resonac, we must communicate effectively that we are a global functional chemical manufacturer and that we are strong in semiconductors and electronic materials. By strengthening the brand power of Resonac, we hope to boost employee pride, gain widespread recognition in society, and attract human resources who can compete globally. This will contribute to improving corporate value.

The field we will be competing in is the world, and we need to respond quickly. In the future, there will be fewer and fewer things that can be solved by a single company. In order to deepen collaboration both within and outside the semiconductor industry, we will put even more effort into digitalization and globalization in our brand strategy.

Now That We Have the Resources, We Need to Win in the World

A year and a half has passed since a new system was established through the substantive integration and I joined as CSO. In the midst of various matters related to the integration, I have played the role of a compass. Even if it was sometimes unpleasant to hear, we have always looked at the medium- to long-term and responded as a team.

From my own experience, it’s rare for a company of this size to make decisions and act with such speed. I believe that I am able to exercise leadership because I am an outsider. I want to be the catalyst for innovation by looking at the Company objectively, based on my career experience developed outside of Resonac.

Resonac now has everything it needs to compete: human resources, technological capabilities, system, and strategy. I feel that resisting decline and aiming to win is a great motivation, and it’s an admirable thing. I don’t want to see any more Japanese companies lose, and I don’t feel like Resonac, which has all these resources, will lose. We hope for your continued support for Resonac competing on the world stage.