Speech by Sir Stephen Gomersall to J400 Business Seminar, Guildhall, 11 September 2013

**Japan and Britain in Partnership, meeting the Challenges of the 21st Century: Challenges of Innovation and Technology**

Lord Mayor, Ambassador, Ladies and Gentlemen

Thank you for the opportunity to say a few words on this important topic. But first may I congratulate the organisers of J400 on their great innovation – for tracing in a wonderfully lively manner the development of a relationship from the early exchange of technologically sophisticated gifts between monarch and shogun, to today’s multitude of partnerships in arts, education, industry, science and government – showing how enriching the relationship has become.

It is of course a truism to say that how companies or nations cope with the challenge of innovation can determine whether they rise or fall. It is certainly my experience that collaboration between Japan and Britain in Industry and Research has produced huge benefits for both nations, and should, and I’m sure will, be further intensified.

My views on what constitutes innovation have been shaped by nine years in a large Japanese industrial conglomerate, with all the strengths and weaknesses that such an organism typically has. From the perspective of the Japanese company I would argue that innovation has many more aspects than simply the capabilities of the laboratory and the commercialisation of new intellectual property, and that the key component of innovation, and indeed national renovation, is openness.

And that is also, incidentally, the logic for making speed on negotiation of the EU-Japan Free Trade Agreement

Let us begin however with **innovation at the level of Research and Development**. It is often said that Britain is very good at inventing things, and Japan is much better at commercialising innovation and at manufacture, and this remains the basis of a lot of very productive relationships between Japanese and British companies.

As we have just heard from the Chairman of Chugai, numerous Japanese companies including Nissan, Sony,Toshiba, NEC and Sharp, have chosen the UK to do their design and R&D work because of the availability of good scientists and accessibility of our university system and start-up markets. In Japan up to now, Japanese industrial companies have tended to have arms-length relationships with their universities and Government regarding commercial R&D, and to concentrate their R&D in large company labs which by their nature can be quite inward-looking. In Hitachi we still have a minority of our research overseas, though this is changing. We have had a fundamental physics lab in Cambridge for 20 years which collaborates with UK, Japanese and other European researchers and governments in its key programmes. Currently these centre on **future silicon devices** for dealing with what is called Big Data, such as in medicine and weather prediction: also on **sensors** for biomedical applications such as blood testing and DNA sequencing: on further advances in electron microscopy, and on the study of nano magnetic systems to try to overcome the dependence on rare-earth materials. The UK is an excellent base for this kind of research.

Closer to the industrial end of the spectrum, as our rail and nuclear businesses move from the development to the manufacturing phase, we are planning to create international teams of researchers and designers in the UK, and partnerships with advanced UK technology companies and institutes such as the Advanced Manufacturing Centre in Sheffield. Such partnership is not only politically expedient, but an essential aspect of understanding the overseas market and standards, being able to develop acceptable local solutions, building relationships and internationalising one’s business and business culture. The UK offers huge opportunities in this regard for Japanese companies.

Secondly, if we look at **product innovation and production technology,** this is an area of recognized Japanese excellence, symbolised if you like by the Shinkansen, developed in the 1950’s, or by the geeky humanoid robots which steal the show at exhibitions.

There has been huge value to the UK in the import of such technology through the flow of inward investment. Nissan’s productivity is the best demonstration. Our rail factory will eventually use for example welding technology for aluminium car bodies which was invented in the UK but not commercialised here. We will use modular construction technology to shorten the building time of our nuclear power plants, for the first time in that industry in Britain.

Japanese companies have this capacity for technology and process refinement in great depth. Yet we have seen many instances in which product innovation by itself has not been enough to win in the competition, one example in recent times being what has happened in the television industry. While the Japanese giants were fighting it out in their domestic market over who could produce the blackest shade of black, the Koreans and others were wiping them out in emerging markets by sheer power of marketing and price competition. I could quote countless examples where our engineers have assumed that they could succeed because they had produced a superior product, and one can think of British examples as well in the past. Successful innovation has to include creating a path into the customer’s heart and market, and pocket-book.

That is why I think that **organisational, or if you like, management innovation**, is one of the most critical challenges that Japanese companies, large ones at least, face. And it’s an area where there is much to gain from the fusion of Japanese and British practice. We have already seen some leading Japanese companies making major takeovers with the idea, as in the NSG Pilkington case, of turning their old business culture inside out and acquiring global human assets and knowhow. Within Hitachi, it was done successfully for example with an American acquisition in our IT platform business, but not throughout the organisation, where many old management norms remain. Britain, indeed Europe, is the home of the multinational in which nationality of personnel is much less important than skills and experience. One has also to note that UK and Japanese people, and company cultures, do seem to be particularly good at collaboration on a human level. The more experience Japanese companies gain of overseas operations, the more this registers, and each acquisition makes the next step towards international inclusivity that little bit easier to manage. Every time we make even a small acquisition, or hire good local people in the UK and Europe, one feels the pulse quicken a little bit.

Finally, a challenge that would-be global companies increasingly confront today is the need for **financial innovation**. Companies shifting from making highly volatile commodity products such as consumer goods, semiconductors, hard disc drives, etc, towards becoming providers of larger scale social infrastructure – for which there is a huge demand in many parts of the world – also find themselves in projects which require the raising of substantial amounts of private finance and the negotiation of complex and sometimes politically sensitive contracts, all of which require the provider to have access to skills and networks which are far beyond their traditional experience base. Hitachi’s contracts for the Intercity Express Programme and that still to come on the nuclear new build programme are two such examples. For Japanese companies, access to Japanese banking resources including JBIC can be a help. But again, moving from a culture in which companies looked entirely to their own resources to one where which relies on alliances, industrial partnerships, and intense but sometimes quite temporary advisory relationships is not always an easy bridge to cross. But I believe British companies are some of the most accustomed to international partnerships, especially working in third countries: and that London is the best possible location for access to the legal, financial engineering consultancy and other professional advice which is essential for entering into such business, and that is of course why so many multinationals are based here.

So it is not an accident that Japanese companies have invested heavily in the UK. We have made it absolutely clear to British politicians that we have invested here, especially in the Rail business, in order export to the whole of Europe, and that the state of UK relations with the EU will affect our business and the numbers of jobs we can create in the UK. But at the same time, I doubt that any other European country would have been as open as the UK in the first place.

So, to summarise;

Both countries can point to technological excellence in different domains. But innovation is about more than technology, and a critical component is openness. In today’s world innovation requires the embrace of many other skills and capabilities to create a resilient and competitive international business. The UK offers a market, a business culture and skills which are highly complementary to those in which Japanese companies naturally excel. That is one reason why Hitachi has chosen to enter the UK infrastructure sector. It is also why I believe Anglo Japanese partnerships in research, production and international business collaboration should not only increase, but are in the overwhelming interest of both countries.