

Forces of Change

Interview Series: Pivotal Executive Decisions

#1

Competing globally, in semiconductors and business



GUEST

Hidetoshi Shibata

Representative Director, President and CEO
Renesas Electronics Corporation

[Profile]

After a career including Central Japan Railway, Merrill Lynch, and the Innovation Network Corporation of Japan, Mr. Shibata joined Renesas Electronics Corporation in 2013 as Executive Vice President and CFO. He has held his current post since July 2019. Mr. Shibata has long been involved in the restructuring of Renesas' business, and has led major acquisitions of companies such as U.S.-based Intersil and IDT, and UK-based Dialog. As a result, Renesas has grown into a world-leading semiconductor company. Renesas offers solutions in four focus growth segments: automotive, industrial, infrastructure, and IoT, to develop a safer, healthier, and smarter society. Today, Renesas forms a global organization with more than 21,000 employees in over 30 countries worldwide.

HOST

Shintaro Okuno

Partner and Chairman of
Bain & Company Japan, Inc.

[Profile]

Shintaro Okuno has experience as a consultant, advising on a wide range of business challenges and themes, with a focus on company-wide reform programs, business restructuring, M&As and strategic partnerships, and business integration. He leads Tokyo office's Advanced Manufacturing Services practice.

Corporate culture affinity is vital for business integration

Okuno: Renesas was originally formed through an integration, but since you assumed your current post, Renesas has moved forward with even more global and dynamic M&As, and business integrations.

Shibata: The very next day I was appointed CFO of Renesas in 2013, I had the opportunity to have breakfast with the CEO of a U.S. based company in the same industry. The first thing he said to me was, “My condolences.” [laughs] That’s how difficult the company’s situation was. For the first few years, we were putting all of our efforts into simply surviving and becoming profitable. That of course was tough, but I think it was good in that it brought the company together. Then, once we had survived, we reached the stage where our management capabilities were tested—in terms of which direction we should choose to steer our growth.

When I became CEO, my first job was to enhance Renesas’ products strategically. To do that, we needed diverse technologies and talents, and I believed that this required aggressive global M&As. So, I went overseas myself, and as I narrowed down the candidate companies, I realized that the most important ingredient was an affi-

ity between the two companies’ cultures. We worked extremely hard to find integration partners that had the requisite technologies and people, as well as a cultural affinity. Although I sometimes received harsh comments and negative criticism from economic commentators...

Okuno: Even so, your business integrations went well. The background for that was the affinity between corporate cultures. That said, with so many foreign nationals on the management team and workforce, I imagine you must have had some difficulties in understanding and communicating your management philosophy and decision-making process.

Shibata: It’s still a struggle [laughs]. But at the leadership level, we are making good use of the remote environment from the COVID-19 pandemic. It’s great to be able to get together online and take immediate action when the agenda requires it, regardless of the physical distance between us. However, while we can discuss left-brain, explicit issues that are placed on the table smoothly using online communication, it is often difficult and somewhat frustrating to discuss emotional, right-brain issues online. As COVID-19 restrictions are eased moving forward, I want to strengthen our interpersonal connections.

Okuno: After multiple M&As, in terms of nationality, your Japanese staff members now make up less than half of your staff, and most of your business locations are physically overseas. You are now working to define “Renesas Culture” in order to bring together an organization with diverse people and locations. When performing business integrations, did you learn a lot from the companies you acquired?



Shibata: Yes, we learned a lot about employee engagement in particular from Dialog, which we acquired in 2021. They had spent many years working via trial and error to bring together a diverse set of people. We recognized their excellent practices without reservation, and we are rolling them out at Renesas, pretty much as-is.

What it means to run a semiconductor business with Japanese roots

Okuno: Incidentally, ESG is becoming an increasingly important corporate goal in the business world, and Renesas' proactive efforts in this area are drawing a lot of attention.

Shibata: Actually, Japanese companies have already been doing a lot of “good things” up to now. In fact, they were doing these things long before the concept of “ESG” was created. But I think that they are not really good at visualizing and making appeals regarding these efforts. When you work on a task, even if it's a short-term one, you first need to present the results in a tangible form. This will tell you what you need to work on next, and give you hints toward other efforts. The results of the ESG work you have done in this way will gain recognition from investors and customers, and will lead to higher corporate value, for example by being included in indices. I think that taking on the challenges that are in front of us right now will generate benefits that are unique to ESG.

Okuno: Certainly, focusing only on long-term goals is exhausting to everyone, both management and employees alike.

What has been the driving force that has enabled you to maintain your attitude of competing on the global stage throughout your career, despite the large variety of difficulties and challenges?

Shibata: This is also something that I talk about often to my employees, but the fundamental idea is that semiconductors are a wonderful business, and I feel very fortunate to be involved in it. Semiconductors are a veritable mountain of added value. The world today would be unable to function without these products and technologies. Unfortunately, nearly all of Renesas' rivals in its field of the semiconductor business are based in the U.S. and other foreign countries. Japanese companies are excellent and work very hard. However, their hard work never seems to be rewarded. I have a strong desire to do something about this gap, and to create a business where hard work is rewarded.



The first thing is to produce tangible results

Okuno: Renesas has become one of the few semiconductor companies originating in Japan that can compete with the rest of the world. Some people even say that it's the “last bastion of the Japanese semicon-

ductor industry.” What do you have in mind for your next phase of development?

Shibata: Simply put, I want to achieve solid results in terms of numbers. Ultimately, I believe that this means revenue and market capitalization. I am very focused on producing tangible results that clearly show what Renesas has accomplished.

Okuno: The relative positions of Japanese companies in terms of market capitalization and stock prices continue to decline rapidly, and Japan’s “lost decade” keeps getting longer.

Shibata: That’s precisely my point. I want to help stop this trend.

Okuno: Is your move from CFO to CEO based on this thinking? Please tell us about your mission since you became CEO of Renesas, and how much of it you have achieved so far.

Shibata: One of the tasks at my previous job at Innovation Network Corporation of Japan was rebuilding Renesas. It was with great appreciation that I welcomed Mr. Sakuta, who was then Chairman at OMRON Corporation, as CEO of Renesas. Then, Mr. Sakuta told me that he wanted me as CFO, and I thought that if the person who I had asked so strongly to take on the role of CEO in turn named me for this role, I would give it a try. However, as I mentioned through the “my condolences” episode at the beginning of the interview [laughs], at that time Renesas was going through great difficulties. When I eventually moved from CFO to CEO, I didn’t have a clear mission, but one thing I was told was that they wanted the “Renesas of the 2020s to be created by someone in their 40s.” People

in their 40s are still young enough to have the strength and vitality to respond to shifting trends and changes in the business environment quickly and with high sensitivity. In this sense, since it is now 2022, we have only progressed through 20% of the decade. Although I cannot say that our tangible, numeric results were all as expected, I believe we have made good progress.

To no longer be called the “lost decade”

Okuno: Renesas has evolved through a number of business integrations. As CEO, what is your personal philosophy regarding M&As?

Shibata: We have a well-prepared quantitative matrix, but it often becomes a secondary consideration when making decisions. Businesses almost never perform according to pre-set indicators; on the contrary, sometimes unforeseen synergies emerge. I value raw synergy, unlike the synergy effects talked about in business schools and business books. In reality, most of the raw synergies created through various M&As are made possible by the potential of the companies’ human resources, which made me realize the importance of corporate culture.

Okuno: I see. The possibilities created by people create new results.

Shibata: As a CEO who was promoted from CFO, and with an investment background, people tend to think of me as a leader who makes decisions with my left brain, but I am actually keenly aware of the importance of right-brain thinking.

Okuno: I think that's fantastic. Talking with you has given me a sense of the potential opportunity for Japan to break out of its "lost decade" and move forward into the exciting 2020s.

Shibata: I would be happy if I could convey the fact that I have been engaged in a

continuous struggle, and I hope that you can empathize. For our children's generation, I want to create a Japan that is not described using the term "lost." I hope that this session can serve as one of the first small steps toward accomplishing this goal.



*This article is a summary of the webinar hosted by Bain & Company on May 12, 2022, "Renesas: its Corporate Culture and Talent, and Strive for Transformation into a Global Semiconductor Company".