How Societal Changes and NEC’s Reforms Affect the Future Outlook

The rapid spread of COVID-19 has had a major impact on the global economy, making it difficult to predict Japan’s future. People’s values and lifestyles are expected to change markedly. And in this context, the impact on NEC is a concern, but rather than focusing on the negative side, it is important to see this change as a tailwind and an opportunity for NEC to make significant contributions to society.

This is possible because NEC has constantly reinvented its corporate culture through many years of business structure and personnel reforms, and is endowed with a history of 120 years of steadily refining, diversifying, and cultivating technology.

I believe another important factor is NEC’s adeptness in drawing on the valuable competencies of external experts, as evidenced by its recruitment of excellent managerial executives and the increase in the number and quality of outside directors. An external perspective is an indispensable and extremely important component in strengthening NEC Corporation through stronger governance, which is the foundation of management. Moreover, a succession plan should be formulated from a long-term perspective, to look ahead to the president for the next generation and beyond. On this matter, all the outside directors are continuing to meet with executive officers to evaluate each person’s abilities, insights, personality, ethics, and other qualities.

I believe such efforts indicate a bright outlook for NEC’s growth and social contributions going forward.

Auditing Practices Evolving to Change with the Times

One year has passed since I was appointed to serve as an outside corporate auditor of NEC. Compared to other companies, NEC’s business content is elaborate as it involves the leveraging of its cutting-edge technologies, and the Company itself is a complex organization consisting of a large number of business divisions and domestic and overseas Group subsidiaries. As such, it is difficult to tackle the task at hand with the approach of ordinary audits, so auditing methods have been refined through various resourceful initiatives. One of these is the close cooperation between three teams: the corporate auditors, audit firms, and internal audit departments.

In the exchange of views between audit firms and internal audit departments, one topic of keen interest has been the state of audits since COVID-19 began to spread. The execution of working remotely from a place set up for the purpose of daily work activities turned out to be more efficient than expected. On the other hand, discussions and ideas have tended to focus only on pinpoint issues. Also, it is easy for team members to overlook the careless mistakes of others in the process of working remotely, so we need to perform audits with that in mind. Furthermore, considering the limited opportunities for conducting actual inspections by visiting business divisions and subsidiaries and the increase in conducting hearings remotely, we are exploring the use of digital auditing to supplement conventional methods, which are based on experience and intuition cultivated from a broad inventory of knowledge and human relationships. As an example of a customary digital audit, risks of accounting fraud and unprofitable projects can be systematically identified at an early stage through the analysis of financial data. Digital auditing is already being introduced, but in order to further promote and improve such audits, it is necessary to improve the accuracy of risk identification according to the characteristics of each company’s operations and the location of risks. The importance of determining sampling risk in dangerous areas based on experience and intuition remains unchanged, but it is expected that by combining this with methods using IT systems to comprehensively identify risk locations, the accuracy of auditing will undoubtedly improve in the future. I therefore expect to see increasing adoption of digital auditing going forward.

As an Outside Audit & Supervisory Board Member, I intend to do my best to contribute further to improving NEC’s governance. Thank you for your support and understanding.