

Series: Human Capital Management

Session 1: Introduction to Human Capital Management—Understanding through Comparison with Conventional Management Styles

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1. Introduction

Recently, companies in Europe, the United States, and Japan have been increasingly required to disclose human capital information. In September 2020, the Ministry of Economy, Trade and Industry (METI) released the "Report of the Study Group on Improvement of Sustainable Corporate Value and Human Capital" (also called ITO Report for Human Capital Management), which has triggered a rapid increase in interest in "human capital management."

Although human capital management is widely used, the essentials of human capital management have not been sufficiently clarified. What does human capital management mean? The author believes that human capital management is a management approach that positions human resources as the driving force (capital) for creating corporate value, maximizing return on investment (ROI) by strategically investing in human resources. Human capital management does not necessarily involve responding to requests for information disclosure.

Therefore, under the title of "Series: Human Capital Management," we will systematically discuss the concept of human capital management and how companies may practice it in the future. In this article, we will deepen our understanding of the overall picture of human capital management by comparing it with conventional management styles.

2. Why is human capital management required now?

First, we briefly review the background of demand for human capital management. The present era is described as VUCA, "an era of uncertainty and difficulty in predicting the future," and Covid-19 has heightened the uncertainty even further. Under these circumstances, it is necessary to monitor the effectiveness of each measure and discuss strategies to increase the ROI of human capital.

Structural changes are occurring in human resources, with the percentage of women, elderly employees, and foreign nationals in the workforce increasing

annually. The number of freelancers and people with secondary or multiple jobs is rising, making the way people work even more diverse. In light of these trends, the traditional uniform human resources management based on "male-centered, full-time, lifetime employment" has reached its limits.

3. Differences between conventional management style and human capital management

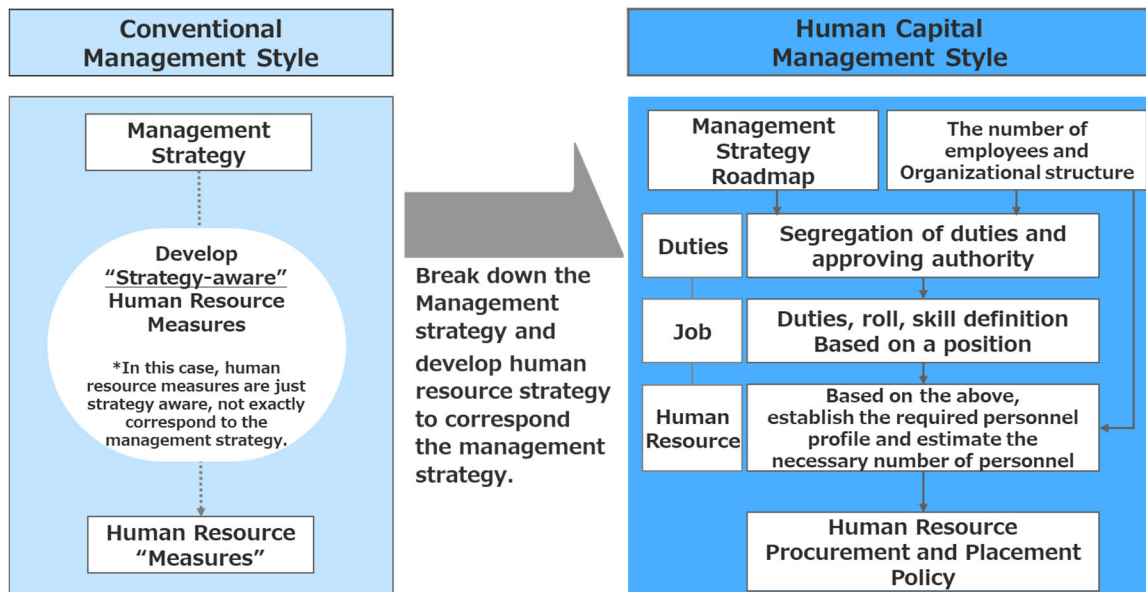
Next, we consider the differences between human capital management and conventional management styles. To do so, we must understand the public perception of human capital management. According to a survey conducted by The Japan Research Institute of 300 people with final decision-making authority over human resources and hiring, 73.7% of the respondents believed that "human capital management is synonymous with management that values people and is not an initiative to do something new." In other words, many companies consider human capital management an extension of the conventional approach. However, the author believes that human capital management differs from traditional management.

Human capital management is a management approach that regards human resources as a crucial element for generating corporate value and emphasizes strategic investments in human resources to maximize ROI. Importantly, to maximize the ROI on human resources, investments in recruitment and training must be made strategically and scientifically rather than sensitively. In other words, the ROI can be enhanced by establishing Key Performance Indicators (KPIs) for human resources, aligning them with overall management strategy, and evaluating and refining the measures on a case-by-case basis. To delve deeper into the concept of human capital management, we consider the procurement and placement of human resources and human resource development as examples.

The conventional approach to managing human resources primarily involves developing policies that align with the business strategy. However, in the context of human capital management, it is crucial to refine the business and human resource strategies and establish precise measures for the quantity and quality of human resources required (as illustrated in Figure 1). In human capital management, the first step is to clarify the mission of each department and post based on the management strategy roadmap. This includes breaking down each task into specific duties, roles, and skill definitions to ascertain the shortfall of human resources, which departments, positions, and roles require additional personnel. Therefore,

the key to human capital management is to carefully break down the management strategy into the quality and quantity of human resources needed, and correlate this with human resource procurement measures.

Figure 1: Ideal state of "linkage of management strategy and human resource strategy"



Source: The Japan Research Institute, Limited.

In human capital management, which derives the quality and quantity of necessary human resources from the management strategy, it is a matter of thinking from the work perspective rather than the people's perspective. This difference in thinking has a significant impact on the way we allocate and train human resources.

Under conventional management practices, even if a company has surplus employees working on low-priority and easy non-core tasks that do not contribute to its competitiveness, it is often the case that "nothing is done" based on the compassionate idea that "it would be a pity to force a major change on the employee." In contrast, human capital management aims to strategically increase the ROI of human capital, making it essential to change the human resource portfolio. In the aforementioned scenario, the company must take concrete steps to reallocate personnel engaged in non-core tasks to core tasks.

Moreover, the process of reallocating personnel to core tasks with a higher degree of difficulty necessitates reskilling. Conventional uniform training methods based on seniority, for instance, must be replaced with a strategy that determines training

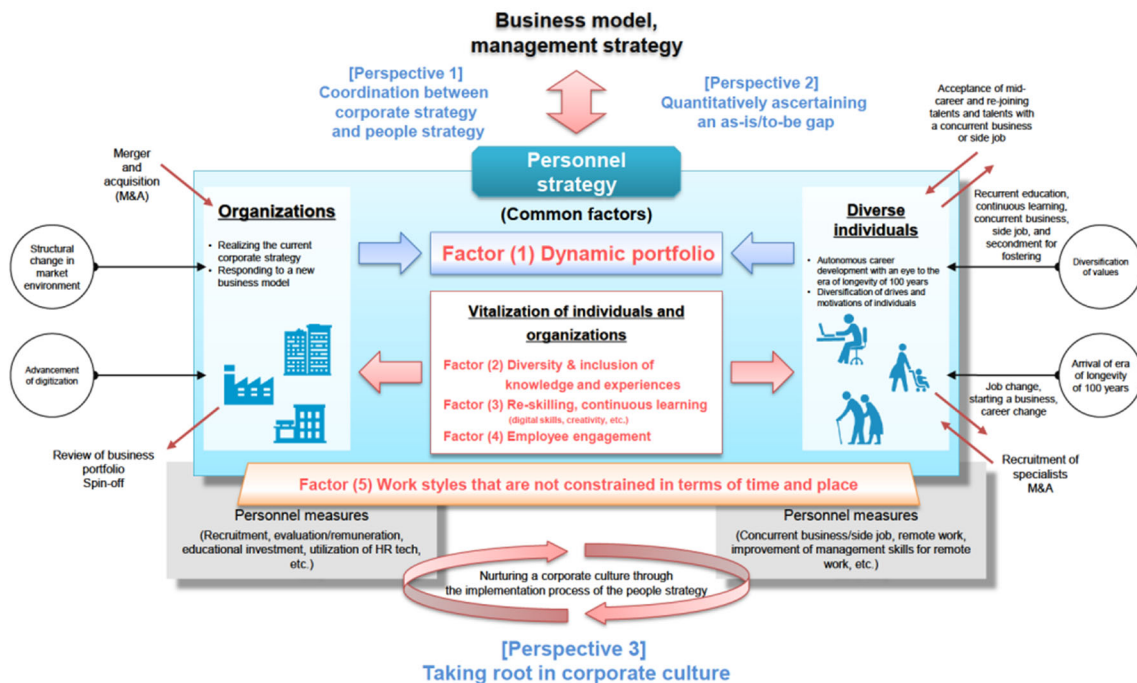
targets with a higher return on investment based on the level of importance and difficulty of the work, and considers individual training methods. Thus, the key to human capital management is a strategic investment in reallocation and training based on the company's human resource portfolio.

These critical human capital management practice points are organized as the "3P-5F Model" in ITO Report for Human Capital Management. The keywords introduced here, "linkage of management strategy and human resource strategy," "quantitative grasp of required human resources," as well as "human resource portfolio" and "reskill," are listed as critical perspectives and elements.

4. The "3P-5F Model" in Human Capital Management

According to the ITO Report for Human Capital Management, the 3P-5F Model refers to three perspectives and five common factors required for human resource strategies in human capital management. The five common factors are elements that all companies should incorporate into their human resource strategies, regardless of their business model (Figure 2).

Chart 2 Overall picture of the 3P-5F Model



Source: ITO Report for Human Capital Management, Ministry of Economy, Trade and Industry.

5. Conclusion

In this article, we touched on the background of the attention paid to human capital management and public misconceptions of it. We then compared the characteristics and goals of human capital management with those of conventional management styles. However, due to the extensive coverage of the 3P-5F Model, it is challenging to provide a comprehensive understanding of it in this article alone.

Therefore, in the following article in this series, we will examine the elements of the 3P-5F Model by theme and provide case studies of companies that have implemented these practices. Additionally, we will compare these practices with conventional management styles to provide a clearer understanding of the benefits and challenges of adopting human capital management.