Series: Human Capital Management
Session 8: Introduction to Human Capital Management - Diversity and Inclusion of Knowledge and Experience
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1. Introduction.

The Human Capital Management Series introduces the basic concept of human capital management and aims to systematically propose points that companies should address when implementing this concept. From the first issue, we have been explaining the 3P-5F model, which is described as "what characterizes an ideal human resource strategy for human capital management" in the "Report of the Study Group on Improvement of Sustainable Corporate Value and Human Capital" (also referred to as the "ITO Report for Human Capital Management") published by the Ministry of Economy, Trade and Industry (METI) in September 2020.

In this eighth installment of the series, we focus mainly on "Diversity and Inclusion of Knowledge and Experience" among the five common elements of human capital management, explaining its significance and critical points for practical implementation.

2. Diversity, Inclusion, and Equity

In recent years, the terms "diversity" and "inclusion" have been used in different contexts. Diversity is "the classification of personal characteristics among interrelated members of a work unit" (*1). By contrast, inclusion is "a state in which the sense of belonging and the expression of one's personality sought by individual employees in a group with which they work are satisfied by treatment within the group and respected as members" (*2). The concept of "equity," which is closely related to these two concepts, has also attracted attention in recent years and is referred to as DEI or DE&I, together with diversity (D) and inclusion (I). Equity is translated as "justice" in Japanese. However, it is often challenging to understand how it differs from 'equality' and 'fairness.' Many people may find it difficult to incorporate it into actual policies. This report examines policies that promote diversity and inclusion in organizations from an equity perspective.

First, equity refers to the distribution of resources according to the contribution level to ensure fairness in an organization (Figure 1). In other words, it means

distributing rewards, authority, etc., in a way acceptable to individuals according to their situation and contribution level. This is based on the premise that there are social structural inequalities and disparities in information and opportunities based on individual attributes (including both superficial and deep attributes). (Consider an illustration of a person watching a sports game with a pile of wooden boxes. The boxes represent the rewards and privileges listed above). Equity is divided into two concepts: "distributive justice" and "procedural justice" (*3).

Figure 1: What is Equity ?
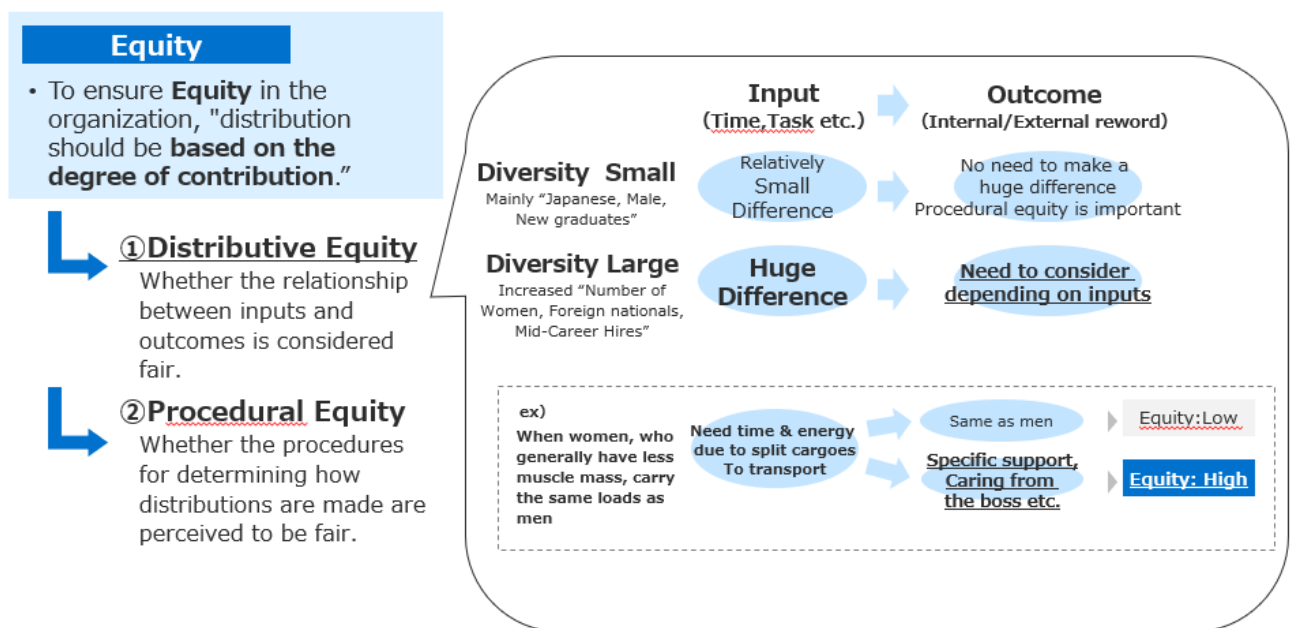
Source: The Japan Research Institute, Limited.

Distributive justice refers to whether the relationship between inputs and outcomes is perceived as fair. In contrast, procedural justice refers to whether the processes that determine how distributions are made are perceived as fair. Many readers may feel that these aspects of justice are naturally practiced in their organizations. Why has so much attention been paid to equity in relation to diversity and inclusion? A critical point is the diversification of inputs in distributive justice. As mentioned earlier, Japanese companies have historically been highly homogeneous organizations, consisting mainly of "Japanese, male, and newly hired graduates," with no significant differences in the number of inputs required to achieve similar outcomes. However, as the attributes of "women," "foreign nationals," and "mid-career hires" become more diverse, the inputs required to

achieve similar outcomes also become more varied. For example, when women, who generally have less muscle mass, carry the same load as men, they need more time and effort (input) than men because they may need to divide the load into several parts.

Similarly, when a non-native Japanese speaker takes minutes in a meeting in Japanese, they must look up and elaborate on the meaning of words, which requires more time and effort than a Japanese employee. If the output does not change in response to increased input, fairness cannot be guaranteed, likely leading to decreased motivation and turnover. Therefore, from an equity perspective, specific support should be provided to reduce input, or outcomes should be increased in response to increased input. Another critical point is that outcomes are not only external rewards, such as compensation, authority, and recognition; internal rewards can also be considered outcomes. In other words, increasing the internal rewards that the individual receives, such as "receiving words of consideration from superiors" or "receiving praise from colleagues" in a way that the individual agrees with, is also one of the ways to increase fairness. Therefore, from an equity perspective, it is essential to consider how to reduce inputs and identify diverse outcomes, including internal rewards, based on the diversification of inputs in distributive justice.

Now that we have explained the concept of equity, what should companies focus on to implement human capital management from this perspective?

3. What is the Approach to "Diversity and Inclusion of Knowledge and Experience" Based on the Equity Perspective?

The most important initiative is for companies to create an environment where middle managers can share their innovations, concerns, and trial-and-error experiences in managing highly diverse organizations and accumulate know-how on problems and complex cases in the field, as well as solutions and strategies in that time. Additionally, it is essential that the points used in these efforts and training programs are based on actual, challenging issues. For example, "One of my subordinates is busy handling a complaint from an important customer that needs to be dealt with on the same day, but his child has a fever at the daycare center, and he has to pick up the child immediately," or "A foreigner hired mid-career has poor Japanese language skills, and although he has no bad intentions, he is causing friction in the department." In such cases, how should supervisors, colleagues, and

companies prepare and respond to the situation from an equity perspective? By imagining such complex issues and accumulating knowledge on how to react to actual cases, DEI in an organization can be dramatically improved.

On the other hand, even though diversity in companies and organizations is increasing in the world in general, there may still be a few participants who find themselves in situations where the members of their organizations are very diverse. Therefore, using case studies and other simulated experiences on such occasions and training sessions is highly effective. Once participants become familiar with the subject matter, focusing on issues directly related to the practical business, such as how to develop new customers, is essential. Middle managers, who have a wealth of experience and a wide range of knowledge, can share their knowledge not only on management issues but also on issues directly related to practical business, thereby strengthening the organization's capabilities. Creating such a platform is an initiative that improves business performance through the diversity and inclusion of knowledge and experience.

The next important initiative is the promotion of appropriate remote work. As employees' characteristics and perceptions diversify, it is important not to blindly make all work remote across the board. For example, mid-career employees need to understand the rules and culture of the organization and have yet to establish networks with other employees. As a result, there is often a sense of unfairness, as they require more input on necessary procedures and additional information to promote smooth operations. To prepare for such cases, it is essential to create and consider mechanisms that allow employees with different characteristics, including mid-career hires, to easily access the organization's rules, culture, and network. Furthermore, it is also necessary to consider implementing these mechanisms in-person as needed. In this way, it is essential to discuss what kind of work should be done remotely and, conversely, what kind of work should be done in real life, and to accumulate best practices for each organization to maximize its results by responding to the circumstances of each diverse individual. Accumulating best practices for each organization is also a necessary initiative to support the promotion of DEI in companies.

This paper presents an "equity" perspective on promoting diversity and inclusion of knowledge and experience. In particular, we emphasize the importance of creating a "forum" where middle managers can share their innovations, concerns, and trial-and-error experiences in managing a highly diverse organization based on

"diversifying inputs in distributive justice" to ensure equity. Examples discussed in this report include women, non-Japanese employees, and subordinates raising children. However, in today's super-aging society, middle managers, who are likely to be responsible for caring for parents, must also be considered. We encourage middle managers who read this report to involve those around them whom they trust and to create a "forum," even if it is only once a year in a small group.

References
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