

## **Series: Human Capital Management**

Session 4: Introduction to Human Capital Management — Building a Dynamic Human Resources Portfolio

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### **1. Introduction**

The "Human Capital Management Series" aims to present the basic concept of human capital management and systematically propose points that companies should address to put this concept into practice. This series is based on the 3P-5F model outlined in the "Report of the Study Group on Improvement of Sustainable Corporate Value and Human Capital" (also called the ITO Report for Human Capital Management), published by the Ministry of Economy, Trade, and Industry in September 2020.

This article explains Building a Dynamic Human Resources Portfolio.

### **2. What is a Human Resources Portfolio?**

Before we explain a "dynamic human resources portfolio," let us first define a human resources portfolio. A human resource portfolio is a framework for understanding whether there is an excess or shortage of human resources (i.e., quantity) concerning the image of the human resources needed (i.e., quality), defined by backcasting from the future goal of realizing a management strategy.

By using the human resource portfolio framework, it is possible to visualize what types of human resources are in short supply and to what extent and consider specific human resource procurement policies. Additionally, it is possible to imagine excess human resources based on realizing management strategies. On the other hand, since the excess of human resources cannot be left as they are, there would be considerable re-education and/or reassignment aimed at switching one's ability to fulfill the organization's desire.

From this perspective, how should a human resource portfolio be established? In summary, we have no choice but to answer that it varies by company because each company has unique requirements; the axes for expressing the quality and quantity of human resources clarified in line with the management strategy are highly individualized for each company. Thus, it is difficult to say that generic templates are useless for some companies. However, it is also true that there are some templates in the framework for commonly used human resources portfolios.

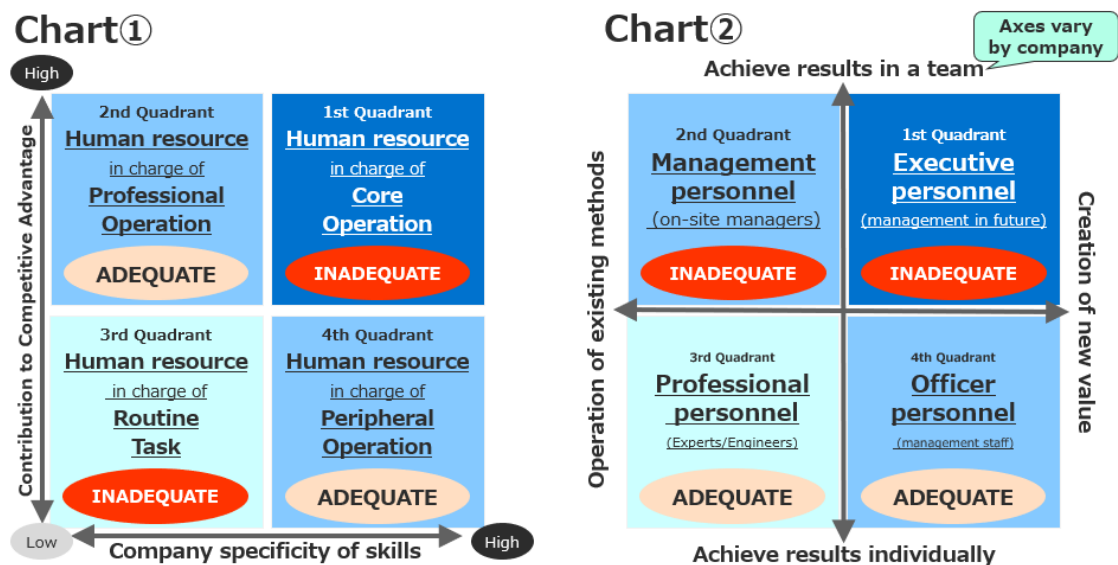
Please refer to Figure 1, which shows an example of a human resource portfolio. In Figure 1, the quality of human resources is defined in four quadrants based on the "degree of contribution to the company's competitive advantage" and the "corporate specificity of skills." The current human

resources are evaluated based on the axis of "contribution to the company's competitive advantage" to determine whether they directly contribute to the company's competitive advantage or are not a differentiating factor. The "corporate specificity of skills" axis was used to evaluate the possibility of externalizing human resources. The quantity of human resources was clarified by dividing it into four quadrants—this is the quantitative understanding of "as is." Simultaneously, the amount of human resources in each quadrant is also clarified; thus, they can grasp the number of human resources required by the four quadrants—this is the quantitative understanding of "To be." Based on the above, it is possible to determine whether the quantity of human resources in the "As is—To be" quadrants is sufficient or insufficient for each of the human resource qualities expressed in the four quadrants. In addition, in Figure 2, the human resource portfolio is defined using two axes: "teamwork  $\leftrightarrow$  individual work" x "creation of new value  $\leftrightarrow$  operation of existing methods." This human resource portfolio is organized based on skillsets and competencies.

After organizing the qualitative aspects of human resources on the vertical and horizontal axes, the human resources portfolio is used to estimate the gap between the ideal number of personnel (To be) and the current number of personnel (As is) for each type and level, and to grasp and visualize the quantitative aspects, such as whether there is a shortage of personnel in each quadrant or whether there are sufficient personnel in each quadrant. The human resource portfolio estimates the gap between the current number of personnel (To be) and the current number of personnel (As is).

**Figure 1: Example of a human resources portfolio study frame**

\*Satisfaction/deficiency in the chart is an example. The "As is—To be" gap is an image expressed as either sufficiency/deficiency.



Source: The Japan Research Institute, Limited.

### 3. “Dynamic” talent portfolios and practices

Now, the human resources version of the Ito Report explains the importance of a "dynamic" human resources portfolio. A "dynamic" human resources portfolio can be understood as "the reallocation of appropriate human resources to the duties and tasks that should be performed. In other words, based on the concept of "the right people in the right places," the right people should be procured from inside and outside the company in response to changes in duties and operations guided by management strategy.

We believe that this dynamic human resource portfolio is mentioned again in the Ito Report because there is a large gap between “As is” (the quality and quantity of internal human resources today) and “To be” (the quantity and quality of human resources to be) in many companies regarding human resources, and that an unprecedented level of effort will likely be required in terms of human resource procurement.

Figure 2 shows a case in which a human resource portfolio is visualized within a particular company. In this case, the company organized jobs based on "importance to the company's competitiveness" and "degree of job difficulty" and identified excesses and deficiencies of personnel engaged in each type of job. As a result, it was found that there was a large surplus of human resources, especially in jobs C and D. At the same time, there was a considerable shortage of human resources in jobs A, E, and G. This is not unusual in the era of VUCA — Many companies are forced to change their management and business strategies in the current business environment; as a result, there may be a large gap between the human resource portfolio set by management and business strategies and the current human resource portfolio. A rigid human resource portfolio (i.e., a nondynamic portfolio) represented by limited external appointments and passive cross-professional transfers is no longer sufficient.

In terms of external procurement, it is necessary to consider not only conventional human resources procurement measures, such as recruitment and outsourcing but also the procurement of the labor force through M&A. In recent years, it has become necessary to actively develop systems to utilize and accept new labor forces, such as freelance workers and temporary workers with secondary or concurrent jobs. In recent years, it has become necessary to actively develop systems and quickly accept new types of labor, such as freelance employment, side hustles, and other temporary work. There is also room to consider measures from different perspectives, such as business process reengineering (BPR) and DX promotion, to avoid becoming too caught up in the workforce.

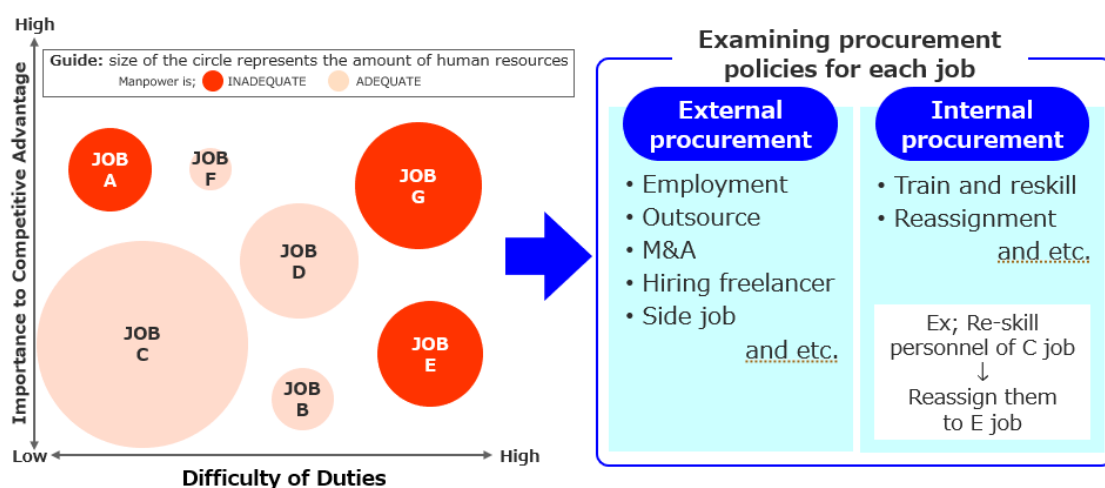
However, methods such as training, reskilling, skill shifting, and reallocation must be pursued for internal procurement. In recent years, there has been a movement to invest human capital in growth areas through major skill shifts and reskilling for specific job groups, hierarchies, and age groups.

However, it must be noted that reskilling and reallocation will be necessary to go beyond conventional training, which is an extension of the status quo and job changes that can be fulfilled with a little stretch. It is important to note that this is not merely an extension of the current situation. In the case of Figure 2, it is necessary to consider the reskilling and reallocation of personnel engaged in Job C in particular. Still, more is needed to allocate them to Job A, which is similar in terms of difficulty, but to Jobs E and G, which are more complex. Such a large-scale reassignment would be a particularly impactful reallocation of human resources, which has yet to be previously observed.

Thus, as the “As is—To be” gap regarding human resources is large, the element of a dynamic human resources portfolio may be trying to convey the fact that this gap cannot be filled without considering the procurement of human resources in a way that has never been done before.

**Figure 2: Image of human resources procurement in line with the human resources portfolio**

**Ex) Sorted by 2 axes of Importance and Difficulty**



Source: The Japan Research Institute, Limited.

**4. Proactive human resources required for future corporate management**

As mentioned above, various methods must be considered to make the human resource portfolio dynamic. Still, it should be noted that "the difficulty of internal procurement is very high in Japanese companies.

When implementing a dynamic human resource portfolio, it is necessary to implement reskilling, skill shifts, and stretchy reassignments that internal personnel has never experienced. Such reskilling, skill shifting, and reassignment require understanding the necessity and a positive approach. However, since the underlying concept is 180° different from the values of conventional

people-centered HR policies, it is difficult to gain employee buy-in, and it is easy to end up in a "whistleblowing, but no dancing" situation. If the project is not carried out properly, corporate culture is likely to be damaged. Internal procurement is complex in Japanese companies because it is necessary to consider the risk of human capital becoming a liability.

Under these circumstances, we introduce proactive human resources, which may become essential to future corporate management. Proactive human resources can be defined as "those who proactively act per their own company and industry, and who look ahead to the future autonomously and proactively. In other words, proactive personnel are those willing to change jobs positively in line with organizational goals. They can also actively learn and develop more effectively through autonomous career planning, actively forming networks, and seeking feedback.

If proactive personnel judge that the career they envision is highly compatible with their reskilling, skill shifting, and stretchy reassignment, they are expected to repeat positive learning behaviors and practices and fulfill their expected duties. However, suppose they judge that the job is not adequate. In that case, they are expected to take autonomous career development actions, such as requesting a transfer through the in-house recruitment system or FA system to become more suitable for the correct position. At the very least, this will avoid the tragic situation of both the company and the employee being forced to do work they do not want to do and will not be able to achieve results.

To develop proactive human resources, companies should keep several factors in mind. In a future installation of this series, we will explain in detail the methodology for making human resources proactive.