Series: Human Capital Management

Session 5: Introduction to Human Capital Management: Establishment in Corporate Culture, Its Significance and Practice

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1. Introduction

  The "Series: Human Capital Management" presents the basic concept of human capital management and systematically proposes points that companies should address to implement this concept. From the first article in this series, we have explained the 3P/5F model, which is "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 called the ITO Report for Human Capital Management) published by the Ministry of Economy, Trade, and Industry in September 2020.

  In this session, "Establishing a Corporate Culture" is the theme, and we explain its necessity and practical methods.

2. What is corporate culture?

  Edgar H. Schein, a prominent researcher in corporate culture theory, defined corporate culture as "the basic assumed patterns that a particular group learns during problems of external adaptation and internal integration" (*1). Following this definition, "the establishment of a corporate culture" is a state in which common values and behaviors formed through various activities to adapt to the external environment are shared and practiced at an "unconscious level" within the company. For example, "the company respects human resources and leadership that create change," and "actions accompanied by a high level of crisis management awareness are implemented from the top down to the front line.

  In corporate culture theory, empirical research has been conducted on the relationship between a solid culture and corporate performance. John P. Kotter, a well-known authority on change management and leadership theory, highlighted that "a strong culture can increase organizational efficiency and lead to good performance in a stable environment, but success could lead to overconfidence and hinder the implementation of externally adaptive strategies" (*2).

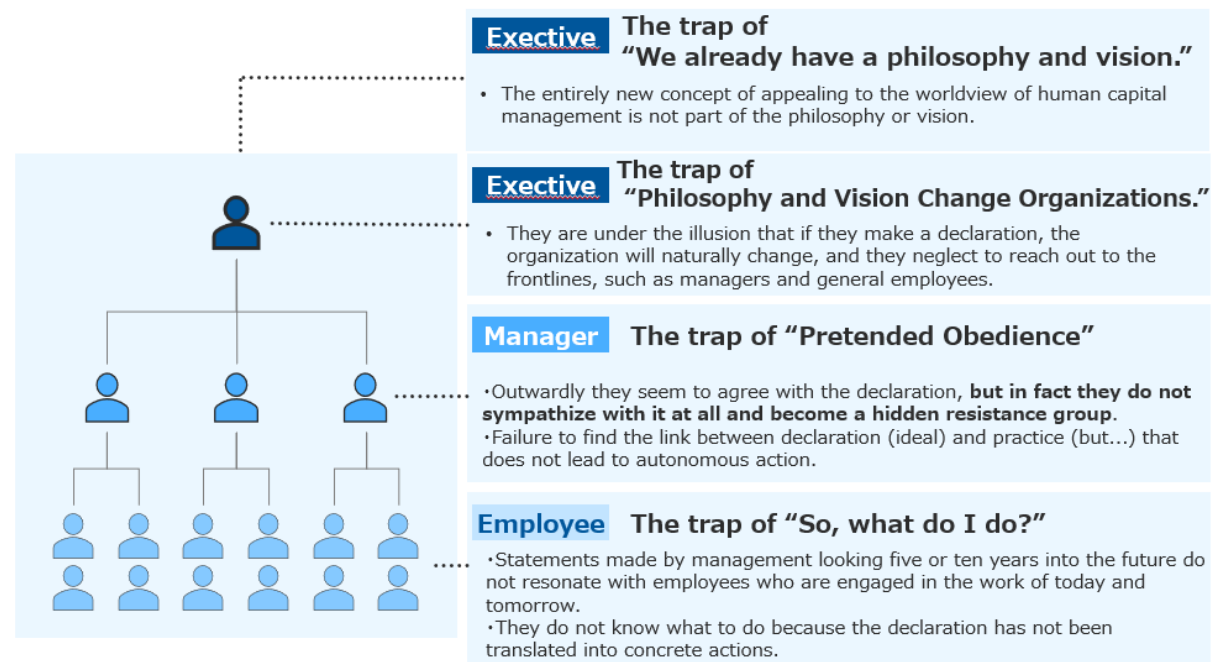## 3. Importance of Corporate Culture Change in Human Capital Management

  Section 4 mentions that to implement human resource strategies based on human capital management, it is essential to actively promote external human resources and shift and reskill internal human resources to promptly ensure that the right person is in the right place. However, many companies still consider it the standard for the right person in the right place based on "recruiting new graduates all at once" and "long-term retention"; it is premised on covering everything with internal human resources. Although this may be extreme, it is not uncommon to see issues where new graduates become uncooperative with mid-career hires to see how they perform. Alternatively, major skill shifts and reskilling are misidentified as retraining systems for personnel deemed unnecessary by companies. This is a typical case.

  Without a significant change in the existing corporate culture like this, the collaboration between "external personnel for the realization of strategies" and "the right people in the right positions for internal human resources " cannot be achieved, and a well-crafted human resource strategy will become a mere figment of the imagination. This may reinforce the opposite message that the company is pretending only to take measures rather than trying to change the corporate culture seriously. It is essential to review the corporate culture formed by a company from its roots to the present to realize human capital management in the true sense of the word.

4. Toward Establishment in Corporate Culture

  Companies' most common problem in establishing a corporate culture is that their corporate philosophy and raison d'être have not been sufficiently validated. Even if they review their philosophies and raison d'être and formulate new ones, they may neglect efforts under the illusion that the organization will naturally change if they declare their perspectives and raison d'être. In such cases, even if the philosophy is formulated by the management considering various stakeholders and the future, it is rarely embedded in concrete actions. This does not apply to employees occupied with immediate tasks. Furthermore, the management level may become a hidden force of resistance to promote measures.

Figure 1: Traps for establishing a corporate culture

Exective The trap of "We already have a philosophy and vision."
- The entirely new concept of appealing to the worldview of human capital management is not part of the philosophy or vision.

Exective The trap of "Philosophy and Vision Change Organizations."
- They are under the illusion that if they make a declaration, the organization will naturally change, and they neglect to reach out to the frontlines, such as managers and general employees.

Manager The trap of "Pretended Obedience"
- Outwardly they seem to agree with the declaration, **but in fact they do not sympathize with it at all and become a hidden resistance group**.
- Failure to find the link between declaration (ideal) and practice (but...) that does not lead to autonomous action.

Employee The trap of "So, what do I do?"
- Statements made by management looking five or ten years into the future do not resonate with employees who are engaged in the work of today and tomorrow.
- They do not know what to do because the declaration has not been translated into concrete actions.
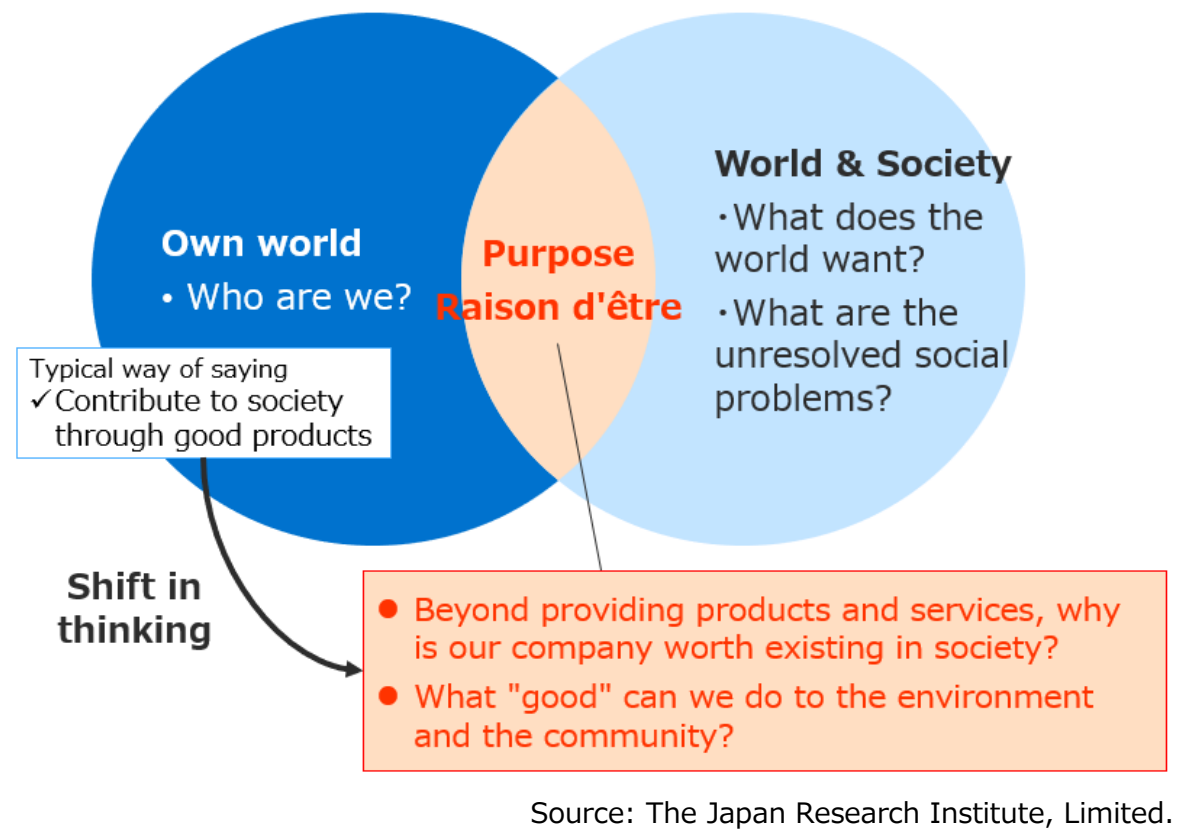
Source: The Japan Research Institute, Limited.

This session addresses these issues and promotes establishing corporate culture aligned with "The ITO Report for Human Capital Management."

Initiative 1: Appropriately examine the corporate culture itself.

First, it is necessary to examine whether corporate culture is visualized in a way that diverse human resources can understand and is highly empathetic to the desired worldview. Without exception, it is necessary to thoroughly examine whether what is visualized as corporate culture supports the implementation of the company's management and human resource strategies or whether it is an expression that risks falling into the opposite function. It is helpful to consider the meaning of existence (attitude) to verify this. This is because purpose (meaning of existence) is characterized as being expressed from the perspective of addressing social issues compared to visions, missions, and values that seem relatively selfish. It is also easier to understand because it is described appropriately for the current era, focusing on the medium- to long-term future.

Figure 2: What is the meaning of existence (Purpose)?

Own world
• Who are we?

**Purpose
Raison d'être**

World & Society
·What does the world want?
·What are the unresolved social problems?

Typical way of saying
✓ Contribute to society through good products

Shift in thinking

● Beyond providing products and services, why is our company worth existing in society?
● What "good" can we do to the environment and the community?

Source: The Japan Research Institute, Limited.

   In addition, it is necessary to consciously incorporate human resource strategies into the meaning of existence (purpose). When considering a performance path, it is essential to be aware that it is a business aspect and a centripetal force as the meaning and significance of working for the company, which is easy for people to understand. Management strategies that focus on more than one purpose are needed. It is necessary to condense the components of human resources strategy, such as a human resources agenda defined with the management strategy, the gap between the ideal level of key performance indicators (KPIs) and the current situation, and the procurement story of internal and external human resources based on this gap, into the perspective to avoid focusing solely on management strategy. Therefore, it is necessary to formulate a human resource strategy that follows a management strategy parallelly and multifacetedly.

   In addition, weaving a personality path through dialogue and interaction between the management and employees is desirable. People who form the organization's backbone should feel that the personality path is rooted in their

own beliefs; therefore, it is necessary to incorporate dialogue and interaction in the formulation process.

Initiative 2: Set up opportunities for dialogue between CEO and CHRO and employees

In establishing human resource strategy as part of corporate culture, the importance of setting up a forum for dialogue between the CEO/CHRO and employees is also mentioned in the human resource version of the ITO Report 2.0. The point here is to convey the seriousness of the CEO/CHRO; in the case study of Tokio Marine Holdings, Inc., the CEO, who also serves as the Group Culture Chief (CCO), leads the group in spreading the culture to employees worldwide. Efforts will be counterproductive if dialogue between the CEO/CHRO and employees is perceived as mere performance. It is necessary to consider the seriousness of the CEO/CHRO to avoid this. Therefore, what should be considered? It comes down to whether the CEO/CHRO is speaking in their words rather than borrowed words. Rather than being swayed by popular notions, they must discuss the type of corporate culture they want to foster.

The importance of authentic leadership has recently attracted increasing attention. Authentic is a word that means "genuine and certain," among others. Authentic leadership involves exercising leadership based on ideas and values while maintaining ethical standards. It is believed that the attitude of influencing members by "being oneself" rather than borrowing from others is required of CEOs and CHROs in the future. Although this is somewhat outside the scope of this study, the author believes that developing such leaders is essential in establishing human capital management.

Initiative 3: Link to specific actions and attitudes of employees

Whether the new human resource strategy will take root in the corporate culture depends on how much each employee links it to their specific actions and attitudes. The human resources version of ITO Report 2.0 states that CEOs and CHROs need to establish mechanisms for appointing, promoting, rewarding, and recognizing employees so that the behaviors and attitudes they value as a company permeate their employees. Simultaneously, front-line managers need to develop communication skills, listen to the motivations and intentions of each employee at work, and encourage spontaneous action. The importance of human

resource management, which focuses on individuals, is also discussed. Cultural anthropologist Clifford Geertz defines culture as "a pattern of meanings expressed in symbols and historically transmitted." (*3) This is significant when considering the establishment of corporate culture. This process naturally takes time; making meaning of a pattern to establish a culture is essential, and it is necessary to accumulate such marks. A one-time, eventful attempt to change corporate culture does not mean that it will be meaningful as a pattern. This definition clarifies that culture will only take root through a series of such events.

In the case of Marui Group, Inc., featured in the examples in the human resources version of the ITO Report 2.0, it is reported that the company spent more than ten years fostering a "hand-raising culture" that encourages each employee's autonomy to promote autonomous organizational development for creating innovations. Advanced case studies also show that a company's culture takes considerable time to take root.

The cooperation of on-site managers is indispensable for managing human resources according to the will of each individual. Managers must have a good understanding of their company's personnel path, accept the diverse will of their subordinates, and guide them in a way consistent with their company's personnel path while taking time to get to know them. However, if this responsibility is placed solely on the front-line managers, who are extremely busy with their daily tasks and operations, they will become exhausted. Therefore, companies must provide managers with appropriate support. For example, there has been an increase in "one-on-one meetings" between supervisors and subordinates to practice human resource management that respects the will of diverse associates. Still, it is also true that many managers do not know what to say. In such cases, the company can assist by, for example, holding higher quality "1-on-1 meetings if human resource data can be visualized through fixed-point observation of each individual's situation using surveys, interviews, and other methods and if necessary, information can be provided to on-site managers promptly and appropriately, and if these managers themselves can use this information in their interviews. These efforts will spread corporate values and attitudes to every employee and eventually to their establishment as part of the corporate culture.

References

-*1: Edgar H. Schein (2016). *Organizational Culture and Leadership* (5th ed). Wiley.

-*2: John P. Kotter (2011). *CORPORATE CULTURE AND PERFORMANCE* (Reprint ed). FREE PRESS.

-*3: Clifford Geertz (2017). *The Interpretation of Culture* (3rd ed). Basic Books.