

Chapter 45

Six Sigma in Human Resources: Application in the Domain Function

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ABSTRACT

HR business partner, Business Excellence are some buzzwords in the industry nowadays. Profitability and efficiency are being driven through various strategic initiatives aligned to the vision of the organization. Customer satisfaction is now being replaced by customer delight. Organizations are taking steps ahead of voice of customer. The consumer insights are thoroughly analyzed and interpreted. Data analytics is not restricted to only finance and operation functions but are widely used across the support functions along with line functions. Human resource is now considered as an asset. Organizations are also trying to find out ways to capitalize the full potential of human asset. Various tools and methodologies are paving its way to bring efficient human resource management practices. Six Sigma is one of the tools, which is booming into the application space of Human Resource Management. Six Sigma is being considered as a business process and is helping the in shaping and improving their bottom line by designing and monitoring various activities to reduce the defects.

SIX SIGMA

HR business partner, Business Excellence are some buzzwords in the industry nowadays. Profitability and efficiency are being driven through various strategic initiatives aligned to the vision of the organization. Customer satisfaction is being replaced by customer delight. Organizations are taking steps ahead of voice of customer. The consumer insights are thoroughly analyzed and interpreted. Data analytics is not restricted to only finance and operation functions but are widely used across the support functions along with line functions. Human resource is now considered as an asset. Organizations are also trying to find out ways to capitalize the full potential of human asset. A most recent human resource ROI has been identified, which is return on intangibles.

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Intangible assets are difficult to imitate and thus it becomes a strong competitive advantage of an organization. Metrics enabling the calculation of such intangible asset will provide the organization exact estimation of its competitive advantage in form of intangible assets. The last two decades have seen a shift in the source of market value to intangible assets like human capital, customer capital, brand equity etc. Thus, a situation arises of challenges and opportunities for HR functions. Major challenge is the strategic hiring, and talent management enabling the talent retention in the organization. This also brings a challenge to define talent for an organization. The organization has to decide whom its talent is and where to invest on the talent.

HR function like other line functions forecasts and achieves its target in the form of recruiting expense, turnover, training, employee engagement and compensation.

But unlike most of the functions HR function does not have objective parameters to show its contribution.

In India, there are some models of HR accounting (Sinha & Gahlot, 2000) which were being used in organizations like ONGC, BHEL, SPIC, VSNL. The focus is on the Human capital and not Human resource function. Some of the HR accounting models in the Indian market place are:

- Hermanson's Adjusted Discounted future wages model
- Likert's socio-psychological model of Human Resource valuation
- Flamholtz's Model of Human Resource Valuation: A stock process with service rewards
- Morses model of Human Resource valuation as assets and capitals
- Jaggi and Lau's model of Human Resource Valuation on career movements of the employees
- Freidman and Lev's measure for the firm's investment in Human Resources
- Myers and Flowers' five-dimensional model of human resource valuation
- Pekin and Organ's model of Human Resource valuation for professional service organizations
- Lev and Schwartz compensation model of Human Resource Valuation

The Lev Schwartz model has been used by Infosys technologies in India. The model is based on the economic concept of human capital. Capital is defined as a source of income over a period of time, and its worst is the present value of future incomes discounted by a certain rate (Lev & Schwartz model).

Economic Value Added (EVA) is another metric used for Human Capital accounting and has a performance perspective that is micro. Essentially, it has a reward and incentive based performance measure. Indian organizations like, TCS, HLL; TVS Motors; Godrej soaps, Satyam computers etc. are implementing Performance based EVA, while, some of the multinationals which are practicing EVA model are Coca cola; Siemens; Bausch and Lomb; Dun and Bradstreet etc. The advantages with EVA are that managers, act, think and behave like owners and there is no ceiling on the kind of investment that they can carry home.

HRD Audit is a method for measuring the effectiveness of the HR function through audit of systems and their functioning. It focusses on Core Competency of the organization and evaluates the commitment of the organization to drive the culture. HR audit addresses issues like top management commitment and involvement to HR processes, aligning the business goals to the individual goals and other aspects like TQM. HRD Audit is essentially a checklist, which is to be ticked off for its presence. The ISO certification also gives an assurance of presence of strong system while the need of HR function now is a tool, which is more scientific, strategic, has rigorous measurement and soft processes. HR Score card finds a challenge in its measurement effectiveness. Hence HR Six Sigma has emerged as a superior tool.

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