FROM THE EDITOR

Six Sigma Critic Way Off Target

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In this issue we have a special treat, a guest editorial by Forrest Breyfogle (p. 10). Like many of us, he was incensed by a rather ill-conceived *Wall Street Journal* article earlier this year debunking Six Sigma.

Undoubtedly most who read this saw it as a self serving article promoting a company's product (multivariable testing [MVT]—anyone ever heard of design of experiments?) and attributing almost magical properties to this methodology. The supposed reason Chuck Holland, the head of QualPro, had words critical of Six Sigma was the rather poor performance of Home Depot and the recent removal of its CEO. Because Home Depot used Six Sigma, and its stock price had underperformed the S&P index, Holland argued Six Sigma was a failure.

Breyfogle questions Holland's methodology, his statements about Six Sigma, and Holland's contention that a silver bullet, MVT, is the reason Home Depot's competitor, Lowe's, has outperformed Home Depot. Unfortunately, there are a number of *Wall Street Journal* readers who will not see the errors in this article as clearly as Breyfogle—or most readers of *Six Sigma Forum Magazine*—and who will perhaps question whether their company is using the right methodology.

In fact, a good friend called me immediately after the *Wall Street Journal* article appeared because her CEO had questioned whether they should continue pursuing Six Sigma or investigate this new tool Holland mentioned. The fact that many of us were going to have to answer similar questions made me welcome Forrest's offer to respond to the article. I'll add some other points we might want to include in our answers.

There are a number of other assumptions worth questioning in the *Wall Street Journal* article. The most obvious is the often used assumption that stock price performance is a good measure of company performance. For investors, it is often all they look at, but it is a complex function of many different variables, some performance related, some psychological and some totally market related.

Several years ago, the chief operating officer of a leading U.S. company took our Black Belt course and chose his company's stock price as his project modeling. He identified a large number of variables that might influence stock price and tested these with all the data available. Interestingly, for his company, he found that exceeding market expectations was the No. 1 driver of its stock price. The key for his company is to improve its forecast, carefully report earnings projections slightly below what it could do and then outperform market expectations.

If we think back to the heady days of the dot-com boom, many companies that would have been ranked as great performers judging by their stock price gain later went bust. For many years Ford and General Motors—judging by

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stock price performance—would have been cited as far better companies than Toyota. Ironically, the Feb. 18 *New York Times Magazine* published an in-depth article about Toyota's rise to the verge of being the largest automobile manufacturer in the world. The article stresses the importance of Toyota's quality system, its almost incredibly intense focus on knowing customers' needs and wants, and its fanatical application of continuous quality improvement using every available tool and method. Perhaps the editors at the *Wall Street Journal* should read the *New York Times* every now and then.

We should not overlook the quality of management in driving a company's performance. A company's performance is not just about Six Sigma—and definitely not just about MVT.

I am a member of an investment club that often invites investment counselors as guest speakers. One group uses a methodology that rates company boards and management teams.

Low rated companies have boards that are closely linked, include too many insiders and friends of the CEO, and contain members who serve on too many other boards.

For example, Home Depot got a D rating—one of the lowest. The recent furor over former Chief Executive Bob Nardelli's pay—and especially his severance package—made this D rating look generous. In fact, Nardelli's and other executives' large severance packages accounted for a four cent per share drop in earnings this past quarter.

Another problem with using stock price to compare companies is the fact that companies are not out there all alone. It is not just how well they are implementing Six Sigma; it is how well they are doing relative to their competitors. Competitors might be implementing the same methodologies they are and perhaps doing so even better.

Motorola, the founder of Six Sigma, is a classic example. Motorola had an incredible run in performance and stock price until some very good competitors matched its performance. Although Nokia was reluctant to call its quality system Six Sigma, those of us who spent time with Nokia knew it was using every method known for breakthrough designs, manufacturing quality and distribution.

Then along came Samsung Elec-tronics, a company that had no problem implementing Six Sigma with a passion and intensity that even impressed General Electric.

With new designs and a new focus on quality, Motorola bounced back with the Razr, but competition continued from Nokia and Samsung, making it hard to maintain prices and profits. Cell phones are truly the big leagues.

One other experience about Home Depot makes me question its Six Sigma implementation success. One of the Black Belt students in our classes at North Carolina State University worked for a major supplier to both Lowe's and Home Depot. His comparison of the relationships with the two companies was illuminating. He saw absolutely no evidence of Six Sigma in his dealings with Home Depot.

The recent American Customer Satisfaction Index survey by the National Quality Research Center at the University of Michigan (and co-sponsored by ASQ) is also interesting: Home Depot's marks rose 4.5% in 2006 and Lowe's dropped 5.1% to its lowest satisfaction levels since researchers started measuring home improvement retailers in 2001.

Perhaps in a few months the *Wall Street Journal* can write an article on how MVT drives down customer satisfaction. σ