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Deep-Sixing Six Sigma

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When Jack Welch, then-CEO of General Electric, touted Six Sigma in his book Straight From The Gut in 2001, the so-called improvement strategy was quickly embraced by Corporate America. The trend began with manufacturing, but spread to service companies and even retailers.

The concept was said to work like this:

- Identify "Black Belts," train them and have them complete a project.
- Have Master Black Belts train others in the organization.
- Require everyone to complete projects.

Watch the benefits roll in and stock prices soar. Sound tempting? It is—in the short term. Just unveiling a Six Sigma program can bring an uptick in stock prices. But over the long term, the benefits are questionable.

In fact, a recent study suggests that Six Sigma does not pan out for most companies. Through a search of publicly available information, QualPro, a consulting firm based in Knoxville, Tenn., identified 58 companies that announced broad Six Sigma programs. QualPro then compared stock performance for each of these companies since their announced launch date to the S&P 500 stock index. Early adopters, such as Motorola and GE, were analyzed for their performance over the last five years.

QualPro found that 91 percent of these companies had stock performances below the S&P 500 index since announcing a Six Sigma program. Only five of the 58 companies exceeded the index. The remaining 53 companies underperformed the index. The bottom line? The majority of Six Sigma programs do not benefit a company's stock performance.

In January 2000, for example, Ford announced its Consumer-Driven Six Sigma program. The company committed more than 2,000 Black Belts across business divisions. Ford was counting on this program to improve customer satisfaction and shareholder value, said Louise Goeser, vice president of quality. But since the announcement, Ford stock has underperformed the S&P 500 by more than 60 percent.

General Electric, the poster child for Six Sigma, underperformed the S&P 500 by 30 percent over the past five years. Home Depot adopted Six Sigma in 2001. The result? Its stock has also lagged 30 percent behind the S&P 500.

Meanwhile, an effective, less costly and faster alternative to Six Sigma has been in existence for almost three decades. This alternative, known as MVT (Multivariable Testing), redesigns a business process by simultaneously testing 20 to 30 changes, determining a precise combination of actions that will achieve breakthrough improvements. Testing is a critical step to process improvement because no one—regardless of training—is capable of finding the right answer without controlled experimentation. MVT experience indicates that 25 percent of proposed changes help, 22 percent hurt and 53 percent make no difference to a process at all.

Since announcing an MVT program, Lowe's stock has outperformed the S&P 500 by more than 200 percent. This is in sharp contrast to competitor Home Depot's under-performance with Six Sigma. Another example is Superior Essex, a manufacturer of a wide range of electrical products. Since launching its MVT work in 2004, Superior has outperformed the S&P 500 by 135 percent.

The absence of quantitative evidence of improved performance may indicate that Six Sigma is merely an overpriced set of low-level statistics courses. While Six Sigma may detect trouble, it does not lead to a redesigned, more effective process. The best that can be expected is slow, incremental improvement— and most companies do not reach this stage.

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