



FORMAT FOR
PRINTING
sponsored by



January 4, 2007

HEARD ON THE STREET

The 'Six Sigma' Factor for Home Depot

Departure of CEO Nardelli Brings Into Focus A Management Technique He Championed

By **KAREN RICHARDSON**
January 4, 2007; Page C3

The departure of Robert Nardelli as **Home Depot Inc.**'s chief executive was largely seen as a result of his big pay package, terse management style and failure to lift the Atlanta home-improvement company's stock price at a time when the housing boom was at full bore.

But it also is an example of "Six Sigma" -- a quality-boosting methodology made famous by Jack Welch, Mr. Nardelli's former boss at **General Electric Co.** -- not panning out as promised.

MORE

Alumni Days: Weekly share performance of companies run by two former GE executives and the current GE CEO.

- **Page One:** Behind Nardelli's Abrupt Exit¹
- **Business:** Failing to Understand New Demands²
- **Graphic:** Home Depot vs. Lowe's³

Developed at **Motorola Inc.** in 1986 and licensed by that company for corporate use, Six Sigma was one of several so-called process-management techniques that took off at U.S. manufacturing companies facing challenges from higher-quality Japanese products. These techniques -- aimed at increasing efficiency and cutting costs -- have since been widely applied across industries such as retailing and financial services.

Six Sigma "languished until Jack Welch embraced it in the late 1990s," says Thomas Davenport, a professor of management and technology at Babson College in Massachusetts.

Now QualPro Inc., a company that markets a competing process-management technique, has issued a study comparing the stock performance of companies that adopted Six Sigma with the performance of the Standard & Poor's 500-stock index. QualPro has done work for **Lowe's Cos.**, Home Depot's main competitor.


Given that the study was issued by a Six Sigma competitor, it isn't surprising that the comparisons aren't flattering.

Motorola, the company that markets Six Sigma, declined to comment on the QualPro report. Mr. Nardelli didn't return calls. Home Depot declined to comment.

A number of former GE executives -- including W. James McNerney Jr., former CEO of **3M Co.**; Dave Cote, CEO of **Honeywell International Inc.**; and Mr. Nardelli -- helped spread the Six Sigma word but have seen their companies' stock prices lag.

Since announcing the adoption of Six Sigma on July 1, 2001, Home Depot shares are down 8.3% compared with a 16% rise in the S&P 500 over the same period. The stock rose more than 2% yesterday on the New

DOW JONES REPRINTS

 This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers, use the Order Reprints tool at the bottom of any article or visit: www.djreprints.com.

- [See a sample reprint in PDF format.](#)
- [Order a reprint of this article now.](#)

York Stock Exchange, to \$41.07, after Mr. Nardelli's resignation.

Honeywell shares are down 7.2% since its Six Sigma announcement in early January 2000, compared with a 3.6% fall in the S&P 500. Shares of 3M are off about 1% since late December 2003 versus the S&P 500's 29% climb. GE shares rose sharply in the 1990s, but they're down 16% since July 2000, when the company adopted Six Sigma, compared with the 2.6% fall in the S&P 500.

SIX SIGMA: IN SHORT

What is the management technique known as Six Sigma?

- A "business-improvement methodology" developed by Motorola to improve work processes by eliminating defects.
- The objective of Six Sigma is to deliver high performance, reliability, and value to the end customer by identifying, analyzing and improving work processes and eliminating waste.
- People who learn it are given Master Black Belts, Black Belts or Green Belts (just like judo).

"Six Sigma is not the end all be all," said Robert Ferris, a spokesman for Honeywell. "It is simply a set of process tools. We would never suggest that a company's performance is solely linked to the adoption of these tools."

Some proponents of Six Sigma say stock price is too simplistic a measure of the program's effectiveness.

"Quality programs are not designed to be measured by a company's stock price," says Jeffrey Pfeffer, professor of organizational behavior at Stanford University's business school and a Six Sigma advocate. Improvements generated by Six Sigma, he adds, "may or

may not be reflected in the stock price."

Charles Holland, QualPro's founder and CEO, disagrees. "There surely is enough smoke in the study to let you know there are problems with Six Sigma," he says. "Over a period of five years or more, share price is an excellent indicator of whether you're getting better as a company."

Of the 58 companies reviewed in the QualPro report, 52 underperformed the S&P 500 index from the time they launched their Six Sigma programs through Dec. 5, 2006. Other underperformers include **Lockheed Martin Corp.**, **Ford Motor Co.** and **Xerox Corp.**

Six Sigma companies that beat the S&P 500 include **Caterpillar Inc.**, **Federated Department Stores Inc.**, **Starwood Hotels & Resorts Worldwide Inc.**, **Target Corp.** and **Whirlpool Corp.**

Beside offering advice to Lowe's, QualPro has worked with retailers **Big Lots Inc.**, **CarMax Inc.** and **Circuit City Stores Inc.** The Knoxville, Tenn., firm's "multivariable testing" method -- a technique that allows companies to test many changes in procedure at once, rather than individually -- lags behind Six Sigma in popularity.

The Six Sigma system trains selected employees in its techniques to monitor, measure and improve processes, and to identify and eliminate waste and defects. These employees are distinguished by a colored-belt system, much as karate students are ranked. The highest Six Sigma rank is a Master Black Belt. Regular black and green belts work under these masters.

"If Six Sigma is one of the process religions, it seems to have the biggest priesthood in these black belts," Babson's Mr. Davenport says. One of the criticisms of Six Sigma is its reliance on this group of specially trained employees, particularly in the retail sector, where staff turnover tends to be higher than in some other sectors.

During the past couple of years, management analysts and investors also have questioned whether Six Sigma is suited to help firms expand through technology, innovation and human interaction.

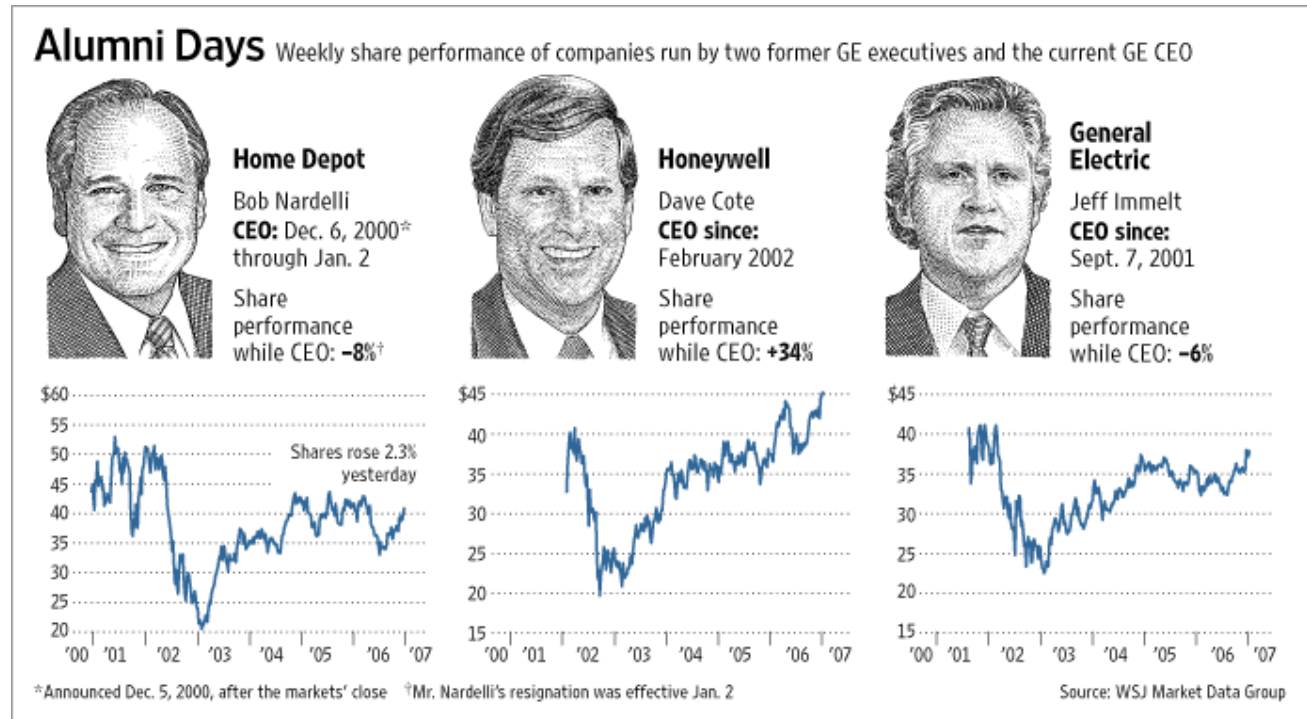
The retail sector, in particular, "is a very human thing, with lots of people going through your store, wanting to talk to somebody about buying a chainsaw," says Jeff Matthews, general partner at Ram Partners, a hedge fund in Greenwich, Conn. "That's a lot different than running a light-bulb plant efficiently." Ram

holds an "insignificant" stake in Home Depot, Mr. Matthews says.

Mr. Nardelli centralized operations and invested in computer systems that allowed the huge store base to function more productively. But he also cut staff, which Mr. Pfeffer -- the Stanford advocate of Six Sigma - - says isn't consistent with the program's advice to drive fear out of organizations or to invest in the work force.

"You can't do just one little thing," Mr. Pfeffer says. "Low cholesterol is just one measure of health. In the same way, quality management is just one piece of the puzzle, but not the answer to the whole puzzle."

Write to Karen Richardson at karen.richardson@awsj.com⁴



URL for this article:
<http://online.wsj.com/article/SB116787666577566679.html>

- Hyperlinks in this Article:
- (1) <http://online.wsj.com/article/SB116782948407565911.html>
 - (2) <http://online.wsj.com/article/SB116787565812066644>
 - (3) [OpenWin\('/public/resources/documents/info-homedepot0107-03.html'; 'homedepot0107'; '800'; '640'; 'off'; 'true'; '30,30'\);void\(''\);return false;](#)
 - (4) <mailto:karen.richardson@awsj.com>

Copyright 2007 Dow Jones & Company, Inc. All Rights Reserved

This copy is for your personal, non-commercial use only. Distribution and use of this material are governed by our [Subscriber Agreement](#) and by copyright law. For non-personal use or to order multiple copies, please contact Dow Jones Reprints at 1-800-843-0008 or visit www.djreprints.com.