

The SIX THIRD EDITION SIGMA HANDBOOK

*A Complete Guide for Green Belts,
Black Belts, and Managers at All Levels*

- › *Full coverage of the management systems and statistical tools essential to Six Sigma implementation*
- › *Expanded information on Lean Six Sigma integrated throughout*
- › *Real-world Excel and Minitab examples*

THOMAS PYZDEK & PAUL KELLER

The Six Sigma Handbook

**A Complete Guide for Green Belts,
Black Belts, and Managers at All Levels**



Paul A. Keller

Third Edition



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Preface

The Six Sigma approach has been adopted by a growing majority of the Fortune 500 companies, as well as many small and mid-sized organizations. Its application in both for-profit and non-profit organizations is a reflection of its broad objectives in improving processes at the core of an organization's mission. While initial perceptions often focus on quality improvements, successful deployments look beyond to profitability, sustainability, and long term growth.

As these words are written, what is now the longest and deepest recession since the Great Depression has upset a record period of global growth and expansion. During the expansion, Six Sigma proved a valuable strategy to meet the strong market demand for products and services through capacity and productivity improvements and focus on reduced time to market. Where competitive pressures from emerging global markets were especially strong, service improvement, cost of delivery and cost to manufacture strategies proved successful. This recession has been labeled a "game changer" by more than a few economists, upsetting supply chains and forcing entire industries to rethink their business model. There will certainly be many organizational casualties of this recession in a wide array of industries. Yet, there will undoubtedly be survivors, who will gain market share and become the pillars of this new century. Those organizations will focus first on core businesses, ensuring continued market share and profitability. They will apply structured Six Sigma efforts directed at key cost, quality and service objectives. This will demand a fresh look at their internal processes, from the eyes of their customer base, to maximize value and reduce cost. They will then seize new opportunities, left open by the weakened competition. Their ability to expand into these markets will depend on diligent planning and successful execution, hallmarks of a Six Sigma approach. The simplicity and adaptability of the DMAIC approach will provide the means towards achieving a strengthened competitive advantage.

The key benefits we sought to achieve in this third revision include:

- Clearly define the management responsibilities and actions necessary for successful deployment.
- Fully incorporate Lean, Problem Solving and Statistical techniques within the Six Sigma methodology.
- Create an easy to use reference guide written in easy-to-understand language.

- Provide examples using Minitab, Excel and other software to demonstrate application of problem-solving and statistical techniques in a variety of settings.
- Emphasize service applications of Six Sigma, since all organizations are at their core a service organization.

We direct this revision toward executive-level management, or those who aspire to those positions, as a means to discover the potential of a properly designed and deployed Lean Six Sigma effort. Operational-level practitioners will also value the detailed deployment plans, and structured approach to the tools and methods used by project teams. The core principles and tools of Lean, with the statistical validation, root-cause analysis and DMAIC problem-solving methodology, are integrated throughout this handbook. The presentation of this third edition is based on the implementation strategy for Six Sigma: initial topics cover the management responsibilities, with subsequent topics addressing the details of the Lean Six Sigma DMAIC problem solving methodology.

We hope you enjoy it.

Contents

Preface	xi
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Part I Six Sigma Implementation and Management

1 Building the Responsive Six Sigma Organization	3
What Is Six Sigma?	3
Why Six Sigma?	4
The Six Sigma Philosophy	5
The Change Imperative	11
Implementing Six Sigma	13
Timetable	14
Infrastructure	16
Integrating Six Sigma and Related Initiatives	32
Deployment to the Supply Chain	34
Communications and Awareness	36
2 Recognizing Opportunity	43
Becoming a Customer and Market-Driven Enterprise	44
Elements of the Transformed Organization	46
Strategies for Communicating with	
Customers and Employees	48
Survey Development Case Study	52
Calculating the Value of Customer Retention	58
Customer Expectations, Priorities, Needs, and "Voice"	60
Quality Function Deployment	61
The Six Sigma Process Enterprise	65
The Source of Conflict	67
A Resolution to the Conflict	67
Six Sigma and the Process Enterprise	70
Linking Six Sigma Projects to Strategies	71
The Strategy Deployment Matrix	71
Deploying Differentiators to Operations	74
Deploying Operations Plans to Projects	75
Interpretation	76
Linking Customer Demands to Budgets	77
Structured Decision-Making	77

3 Data-Driven Management	87
Attributes of Good Metrics	87
The Balanced Scorecard	89
Measuring Causes and Effects	90
Customer Perspective	92
Internal Process Perspective	94
Innovation and Learning Perspective	95
Financial Perspective	95
Cost of Poor Quality	97
Cost of Quality Examples	99
Strategy Deployment Plan	102
Dashboard Design	105
Information Systems Requirements	107
Integrating Six Sigma with Other Information	
Systems Technologies	108
Data Warehousing	108
OLAP	110
Data Mining	110
OLAP, Data Mining, and Six Sigma	112
Benchmarking	112
The Benchmarking Process	112
Getting Started with Benchmarking	113
Why Benchmarking Efforts Fail	114
The Benefits of Benchmarking	116
Some Dangers of Benchmarking	116
4 Maximizing Resources	117
Choosing the Right Projects	117
Types of Projects	117
Analyzing Project Candidates	118
Using Pareto Analysis to Identify	
Six Sigma Project Candidates	125
Throughput-Based Project Selection	127
Ongoing Management Support	133
Internal Roadblocks	133
External Roadblocks	134
Individual Barriers to Change	134
Ineffective Management Support Strategies	135
Effective Management Support Strategies	136
Cross-Functional Collaboration	136
Tracking Six Sigma Project Results	137
Financial Results Validation	138
Team Performance Evaluation	139
Team Recognition and Reward	141
Lessons-Learned Capture and Replication	143

PART II Six Sigma Tools and Techniques

5	Project Management Using DMAIC and DMADV	147
	DMAIC and DMADV Deployment Models	147
	Project Reporting	152
	Project Budgets	153
	Project Records	154
	Six Sigma Teams	155
	Team Membership	155
	Team Dynamics Management, Including	
	Conflict Resolution	156
	Stages in Group Development	157
	Member Roles and Responsibilities	157
	Management's Role	158
	Facilitation Techniques	160
6	The Define Phase	165
	Project Charters	165
	Project Decomposition	167
	Work Breakdown Structures	167
	Pareto Analysis	167
	Deliverables	169
	Critical to Quality Metrics	170
	Critical to Schedule Metrics	179
	Critical to Cost Metrics	180
	Project Scheduling	186
	Gantt Charts	186
	PERT-CPM	188
	Control and Prevention of Schedule Slippage	191
	Cost Considerations in Project Scheduling	192
	Top-Level Process Definition	194
	Process Maps	194
	Assembling the Team	195
7	The Measure Phase	197
	Process Definition	197
	Flowcharts	198
	SIPOC	198
	Metric Definition	201
	Measurement Scales	203
	Discrete and Continuous Data	205
	Process Baseline Estimates	206
	Enumerative and Analytic Studies	207
	Principles of Statistical Process Control	209
	Estimating Process Baselines Using Process	
	Capability Analysis	213

8 Process Behavior Charts	215
Control Charts for Variables Data	215
Averages and Ranges Control Charts	215
Averages and Standard Deviation (Sigma)	
Control Charts	217
Control Charts for Individual Measurements (X Charts)	221
Control Charts for Attributes Data	224
Control Charts for Proportion Defective (p Charts)	224
Control Charts for Count of Defectives (np Charts)	227
Control Charts for Average	
Occurrences-Per-Unit (u Charts)	229
Control Charts for Counts of	
Occurrences-Per-Unit (c Charts)	232
Control Chart Selection	233
Rational Subgroup Sampling	235
Control Chart Interpretation	236
Run Tests	241
Tampering Effects and Diagnosis	242
Short Run Statistical Process Control Techniques	244
Variables Data	245
Attribute SPC for Small and Short Runs	255
Summary of Short-Run SPC	261
SPC Techniques for Automated Manufacturing	261
Problems with Traditional SPC Techniques	262
Special and Common Cause Charts	262
EWMA Common Cause Charts	263
EWMA Control Charts versus Individuals Charts	269
Distributions	271
Methods of Enumeration	271
Frequency and Cumulative Distributions	273
Sampling Distributions	274
Binomial Distribution	274
Poisson Distribution	275
Hypergeometric Distribution	277
Normal Distribution	278
Exponential Distribution	282
9 Measurement Systems Evaluation	289
Definitions	289
Measurement System Discrimination	291
Stability	293
Bias	295
Repeatability	295
Reproducibility	298
Part-to-Part Variation	300
Example of Measurement System Analysis Summary	301
Gage R&R Analysis Using Minitab	302

Linearity	306
Linearity Analysis Using Minitab	308
Attribute Measurement Error Analysis	310
Operational Definitions	311
How to Conduct Attribute Inspection Studies	312
Example of Attribute Inspection Error Analysis	312
Minitab Attribute Gage R&R Example	316
10 Analyze Phase	321
Value Stream Analysis	321
Value Stream Mapping	323
Spaghetti Charts	326
Analyzing the Sources of Variation	326
Cause and Effect Diagrams	327
Boxplots	328
Statistical Inference	331
Chi-Square, Student's T , and F Distributions	332
Point and Interval Estimation	336
Hypothesis Testing	339
Resampling (Bootstrapping)	341
Regression and Correlation Analysis	342
Linear Models	344
Least-Squares Fit	346
Correlation Analysis	351
Designed Experiments	352
Terminology	353
Design Characteristics	354
Types of Design	355
One-Factor ANOVA	356
Two-Way ANOVA with No Replicates	359
Two-Way ANOVA with Replicates	360
Full and Fractional Factorial	361
Power and Sample Size	369
Testing Common Assumptions	369
Analysis of Categorical Data	376
Making Comparisons Using	
Chi-Square Tests	376
Logistic Regression	378
Binary Logistic Regression	380
Ordinal Logistic Regression	383
Nominal Logistic Regression	385
Non-Parametric Methods	389
11 The Improve/Design Phase	393
Using Customer Demands to Make Design and	
Improvement Decisions	393
Category Importance Weights	394

Lean Techniques for Optimizing Flow	400
Tools to Help Improve Flow	400
Using Empirical Model Building to Optimize	402
Phase 0: Getting Your Bearings	403
Phase I: The Screening Experiment	404
Phase II: Steepest Ascent (Descent)	408
Phase III: The Factorial Experiment	408
Phase IV: The Composite Design	411
Phase V: Robust Product and Process Design	415
Data Mining, Artificial Neural Networks, and Virtual Process Mapping	419
Example of Neural Net Models	420
Optimization Using Simulation	420
Predicting CTQ Performance	423
Simulation Tools	426
Random Number Generators	427
Model Development	431
Virtual Doe Using Simulation Software	438
Risk Assessment Tools	443
Design Review	443
Fault-Tree Analysis	443
Safety Analysis	444
Failure Mode and Effect Analysis	447
Defining New Performance Standards Using Statistical Tolerancing	450
Assumptions of Formula	453
Tolerance Intervals	454
12 Control/Verify Phase	455
Validating the New Process or Product Design	455
Business Process Control Planning	455
Maintaining Gains	456
Tools and Techniques Useful for Control Planning	457
Preparing the Process Control Plan	458
Process Control Planning for Short and Small Runs	460
Process Audits	462
Selecting Process Control Elements	462
Other Elements of the Process Control Plan	465
Appendices	
A1 Glossary of Basic Statistical Terms	469
A2 Area Under the Standard Normal Curve	475
A3 Critical Values of the <i>t</i>-Distribution	479
A4 Chi-Square Distribution	481

A5	F Distribution ($\alpha = 1\%$)	483
A6	F Distribution ($\alpha = 5\%$)	485
A7	Poisson Probability Sums	487
A8	Tolerance Interval Factors	491
A9	Control Chart Constants	495
A10	Control Chart Equations	497
A11	Table of d_2^* Values	499
A12	Factors for Short Run Control Charts for Individuals, \bar{x}-bar, and R Charts	501
A13	Sample Customer Survey	503
A14	Process σ Levels and Equivalent PPM Quality Levels	505
A15	Black Belt Effectiveness Certification	507
	[COMPANY] Black Belt Skill Set Certification Process	507
	Introduction	507
	Process	507
	[COMPANY] Black Belt Effectiveness Certification Criteria	508
	[COMPANY] Black Belt Certification Board	509
	Effectiveness Questionnaire	509
	[COMPANY] Black Belt Notebook and Oral Review	510
A16	Green Belt Effectiveness Certification	519
	Green Belt Skill Set Certification Process	519
	Introduction	519
	Green Belt Effectiveness Certification Criteria	520
	Green Belt Certification Board	521
	Effectiveness Questionnaire	521
	Scoring Guidelines	521
	Green Belt Notebook	522
A17	AHP Using Microsoft Excel™	531
	Example	531
	References	533
	Index	537

Six Sigma Implementation and Management

CHAPTER 1

Building the Responsive Six Sigma
Organization

CHAPTER 2

Recognizing Opportunity

CHAPTER 3

Data-Driven Management

CHAPTER 4

Maximizing Resources

CHAPTER 1

Building the Responsive Six Sigma Organization

What Is Six Sigma?

Six Sigma is a rigorous, focused, and highly effective implementation of proven quality principles and techniques. Incorporating elements from the work of many quality pioneers, Six Sigma aims for virtually error-free business performance. Sigma, σ , is a letter in the Greek alphabet used by statisticians to measure the variability in any process. A company's performance is measured by the sigma level of their business processes. Traditionally companies accepted three or four sigma performance levels as the norm, despite the fact that these processes created between 6,200 and 67,000 problems per million opportunities! The Six Sigma standard of 3.4 problems-per-million opportunities* is a response to the increasing expectations of customers and the increased complexity of modern products and processes.

Despite its name, Six Sigma's magic isn't in statistical or high-tech razzle-dazzle. Six Sigma relies on tried and true methods that have been used for decades. By some measures, Six Sigma discards a great deal of the complexity that characterized Total Quality Management (TQM). Six Sigma takes a handful of proven methods and trains a small cadre of in-house technical leaders, known as Six Sigma Black Belts, to a high level of proficiency in the application of these techniques. To be sure, some of the methods Black Belts use are highly advanced, including up-to-date computer technology. But the tools are applied within a simple performance improvement model known as Define-Measure-Analyze-Improve-Control, or DMAIC. DMAIC is described briefly as follows:

- D Define the goals of the improvement activity.
- M Measure the existing system.
- A Analyze the system to identify ways to eliminate the gap between the current performance of the system or process and the desired goal.
- I Improve the system.
- C Control the new system.

*Statisticians note: The area under the normal curve beyond Six Sigma is 2 parts-per-billion. In calculating failure rates for Six Sigma purposes we assume that performance experienced by customers over the life of the product or process will be much worse than internal short-term estimates predict. To compensate, a "shift" of 1.5 sigma from the mean is added before calculating estimated long-term failures. Thus, you will find 3.4 parts-per-million as the area beyond 4.5 sigma on the normal curve.

Why Six Sigma?

When a Japanese firm took over a Motorola factory that manufactured Quasar television sets in the United States in the 1970s, they promptly set about making drastic changes in the way the factory operated. Under Japanese management, the factory was soon producing TV sets with 1/20th as many defects as they had produced under Motorola's management. They did this using the same workforce, technology, and designs, and did it while lowering costs, making it clear that the problem was Motorola's management. It took a while but, eventually, even Motorola's own executives finally admitted "Our quality stinks" (Main, 1994).

It took until nearly the mid-1980s before Motorola figured out what to do about it. Bob Galvin, Motorola's CEO at the time, started the company on the quality path known as Six Sigma and became a business icon largely as a result of what he accomplished in quality at Motorola. Using Six Sigma Motorola became known as a quality leader and a profit leader. After Motorola won the Malcolm Baldrige National Quality Award in 1988 the secret of their success became public knowledge and the Six Sigma revolution was on. Today it's hotter than ever. Even though Motorola has been struggling for the past few years, companies such as GE and AlliedSignal have taken up the Six Sigma banner and used it to lead themselves to new levels of customer service and productivity.

It would be a mistake to think that Six Sigma is about quality in the traditional sense. Quality, defined traditionally as conformance to internal requirements, has little to do with Six Sigma. Six Sigma focuses on helping the organization make more money by improving customer value and efficiency. To link this objective of Six Sigma with quality requires a new definition of quality: the value added by a productive endeavor. This quality may be expressed as potential quality and actual quality. Potential quality is the known maximum possible value added per unit of input. Actual quality is the current value added per unit of input. The difference between potential and actual quality is waste. Six Sigma focuses on improving quality (i.e., reducing waste) by helping organizations produce products and services better, faster, and cheaper. There is a direct correspondence between quality levels and "sigma levels" of performance. For example, a process operating at Six Sigma will fail to meet requirements about 3 times per million transactions. The typical company operates at roughly four sigma, equivalent to approximately 6,210 errors per million transactions. Six Sigma focuses on customer requirements, defect prevention, cycle time reduction, and cost savings. Thus, the benefits from Six Sigma go straight to the bottom line. Unlike mindless cost-cutting programs which also reduce value and quality, Six Sigma identifies and eliminates costs which provide no value to customers: waste costs.

For non-Six Sigma companies, these costs are often extremely high. Companies operating at three or four sigma typically spend between 25 and 40 percent of their revenues fixing problems. This is known as the cost of quality, or more accurately the cost of poor quality. Companies operating at Six Sigma typically spend less than 5 percent of their revenues fixing problems (Fig. 1.1). COPQ values shown in Fig. 1.1 are at the lower end of the range of results reported in various studies. The dollar cost of this gap can be huge. General Electric estimated that the gap between three or four sigma and Six Sigma was costing them between \$8 billion and \$12 billion per year.

One reason why costs are directly related to sigma levels is very simple: sigma levels are a measure of error rates, and it costs money to correct errors. Figure 1.2 shows the relationship between errors and sigma levels. Note that the error rate drops exponentially as the sigma level goes up, and that this correlates well to the empirical cost data shown in Fig. 1.1. Also note that the errors are shown as errors per million opportunities, not as