

The Case of Continuous Improvement At

CORNING

The challenge to those at the “top of their game” is remaining there. Corning Incorporated (formerly Corning Glass Works) is facing such a challenge. Its ability to retain market leadership in an increasingly competitive marketplace takes a full effort. It is able to achieve this leadership position in the market because of many fundamental operating systems. Every employee is engaged, makes a contribution in different ways, and is rewarded for achievements.

Performance, as stated by James R. Houghton, chairman and chief executive officer (1983 to 1996, currently retired), is a result of putting people and customers first. People make decisions and take actions that need to reflect the core values of the corporation—quality, integrity, performance, leadership, innovation, independence, and the individual. The outcomes are superior performance and an organization that continues to improve and be innovative. A centerpiece of this management philosophy is a simple, but powerful team-based incentive plan: goal sharing.

The Goal-Sharing Philosophy

Goal sharing as a concept was not developed overnight. One needs to understand the context and development process that has made the goal-sharing program what it is today. This has become not just a compensation program, but has stimulated a way of managing people and performance that reflects Corning’s core values. In this way, one can appreciate the significant impact goal sharing has had on the company. Often good ideas are spawned from problems. In 1987 Corning implemented a companywide profit-sharing program. It was quite simple: When the company achieved a certain level of ROE (return on equity), a portion of the profits would be paid to all salaried employees in relation to their salary. But soon Corning executives realized that there was little line-of-sight between the drivers of the profit-sharing plan (ROE) and what people perceived as their actions. Individuals in poorly performing units received the same amount of profit sharing as those in high performing units. While ROE remains critical to Corning’s performance today, metrics needed to be established at lower levels so that people could see a relationship between their performance and their pay.

In 1989 the goal-sharing program was pilot tested in a manufacturing plant in Blacksburg, Virginia. This plant was being restarted for a third time and represented an opportunity to develop the program at a “Greenfield Start-up”-type location. The program would not need to address existing work rules, culture, or expectations. It was an ideal situation for developing ideas that were new to the Corning culture.

A team of 12 to 14 members of the new organization developed the goal-sharing program. They represented a cross section of the organization; the union executives and management selected the individuals. Labor union representatives were on the team as well as engineering, production, finance, and human resources. An external consultant was used to provide education about alternatives and served as a periodic resource to the team. The team developed all aspects of the program.

The Application of Goal Sharing

The primary unit of focus for the initial program was the Blacksburg plant. There were approximately 100 jobs in the new organization and they produced a new product for Corning, a substrate for catalytic converters. They identified critical performance measures based on an assessment of the requirements for success in the plant. The model program has developed and been modified slightly over the years to improve the program's impact on performance.

Today the primary goal-sharing "team" may be a business unit, plant, or functional department (e.g., research and development, financial services). As part of the process, each group that has a goal-sharing program needs to utilize a team to develop the measures and oversee the program's implementation. The basic structure is the same for all plans throughout the company.

Since each unit may develop its own program within a basic framework, some of the measures include:

1. Quality (as measured by the volume of scrap and rework)
2. Revenues (as measured by sales per person)
3. Delivery (as measured by the actual delivery to the promised date)
4. Productivity (as measured by the cost management system)
5. Customer service (as measured by surveys or other reliable indicators
6. of service)
7. Financial (as typically measured by cost per unit of service/products)

Each group should have no more than three to five measures in addition to the corporate ROE measure. The balance of financial, operational, and customer-oriented measures is an important feature of the goal-sharing program. This flexibility enables each unit to establish what is within its line-of-sight and what is critical for the unit to accomplish for the corporation.

To integrate these measures into a simple incentive system, a goal-sharing matrix was devised. See Figure 8-3. Each measure is weighted based on its importance and reliability. The corporate ROE measure needs to be weighted by 25% for all goal-sharing matrices.

The remaining 75% is allocated to measures based on the priorities of the business unit. Then a range of performance levels is established from 20% to 200%. This range of levels reflects a continuous improvement philosophy.

The payout opportunity ranges from 0% to 10% of one's total earnings for the performance period. A payout level is established for each performance level of each measure. Payout is determined by multiplying the performance level achieved by the weight for the measure and then multiplying this by the overall target. In this way, if an above threshold level of performance is achieved on any one of the measures, individuals would receive an incentive payout. Even though the payout may be small, the design team felt it was important to have some payouts for achievement and to keep the focus on continuous improvements over the previous year's average.

Setting goals for the goal-sharing process is one of the most important aspects of the program. As indicated earlier, the goal-sharing oversight team for the business unit sets the goal levels in concert with the senior managers of the group. Then these plans are presented to one of two corporate review committees. The review committees are composed of senior executives of the area that ensure there is an alignment between the unit's goals and the corporation's priorities. This is a positive feature and one that provides increased visibility for individuals and teams. It also enables senior executives to communicate directly with the workforce at all levels. Hence, the goal-sharing process facilitates the alignment of goals and communication throughout the organization. The program provides payouts annually. Although there was and continues to be considerable discussion about the timing of payouts, it was concluded that the program should provide meaningful payouts. The bonus is cash and is counted as income for 401(k) matching purposes. The reason is simple: They want people to use the payouts for something special.

SYSTEM XYZ Plant		PERFORMANCE PERIOD														Bonus
LOCATION		0	20	40	60	80	100	120	140	160	180	200	10% Maximum			
Measures	X Weight	0	85	87	89	91	93	95	96	97	98	99	100	TOTAL PAYOUT		
Product Quality	10%	0	0.1	0.2	0.3	0.4	0.4	0.5	0.6	0.7	0.8	0.9	1.0	0.7		
Scrap/Rework	15%	0	0.15	0.30	0.45	0.60	0.75	0.90	1.05	1.20	1.35	1.50	1.50	0.9		
Total Cost/Unit	30%	0	0.30	0.60	0.90	1.20	1.50	1.8	2.1	2.4	2.7	3.0	3.0	1.5		
Customer Service	10%	0	0.1	0.2	0.3	0.4	0.5	0.6	0.7	0.8	0.9	1.0	1.0	0.5		
Customer Satisfaction	10%	0	0.1	0.2	0.3	0.4	0.5	0.6	0.7	0.8	0.9	1.0	1.0	0.4		
Blended ROE	25%	0	0.25	.05	0.75	1.0	1.25	1.5	1.75	2.0	2.25	2.50	2.50	1.25		
Payout Opportunity:	0	10%	10.8%	11.6%	12.4%	13.2%	14%	14.8%	15.6%	16.4%	17.2%	18%	18%			
Previous Year's Average Performance	0	10%	10.8%	11.6%	12.4%	13.2%	14%	14.8%	15.6%	16.4%	17.2%	18%	18%			

Key
 0.5 Payout as % of pay
 400M Performance level for measure

Figure 8-3. Corning goal-sharing matrix.

Developing the Pilot Site

During the initial pilot run of the program at the Blacksburg plant, the payout was not in the form of money. The company was not sure at that time whether the program would have the desired impact on performance. It had not had a successful experience with the profit-sharing program, and there was considerable concern that linking pay too early would lock management into a formal program even after only a trial period. Instead, it used symbolic awards instead of cash. These awards included a jacket printed with the company's name, a watch, or dinner for two, depending on the level of results achieved. This applied to the first six months, since the program was implemented in mid-fiscal year. These awards were sufficiently attractive to get the attention of the plant's workforce, but financial payouts would be needed to sustain the program.

Since its inception in the Virginia plant in 1988, the program has spread to all units within the Corning organization. Even the chief executive officer and senior managers participate in the program. The process of goal setting involves numerous groups throughout the company and has become an important performance alignment process. Furthermore, there is considerable interest in the ROE results that are published and distributed quarterly to everyone in the company.

The program has become an integral element in managing the organization. Since its inception, the overall goal-sharing program has met or exceeded its goals. While some units may not have achieved full payouts, a great percentage has been successful. The payback to the corporation has increased over the years; the savings to cost ratio was 3.6 in 1993 and 4.6 in 1994. The corporation has realized strong revenue growth and has achieved a top quartile rating of ROE among other Fortune 500 companies. New products are being released and costs are better managed.

How Goal Sharing Impacts Performance

These achievements did not just happen. There has been considerable effort to use the goal-sharing process to stimulate growth and improvements in performance. Several units have used it to lead major turnaround efforts, and they have seen considerable improvements in quality, service, and productivity measures. Goal sharing has become a driver for change and is viewed not as a compensation plan, but more as an organizational unifying process within the company. Because the levels of performance increase each year, continuous improvement has become a core principle of the program and of the Corning culture.

The company has learned and institutionalized several critical aspects of the program. First, the goal-setting process has become an important hallmark of the program. This increases employee involvement and communication across many levels of the organization. Second, continuous communication of progress has become a necessity. The measures are important to the organization and tracking results in the selected areas is not seen as an administrative burden; it is the way the business is run.

Third, feedback is inexorably linked to the measurement process. In virtually every business unit there is an “eye chart.” This is a chart that displays the primary measures and the current standing. It also tracks the current payout calculation but is a moving target based on performance. Furthermore, every other month Corning produces a videotape called “Corning Live.” This provides a status report on the company’s performance and describes critical events impacting the company. These programs are also used to highlight business units that have made a particularly important contribution either by improving their own performance or assisting others to achieve greater results. This creates a strong sense of community within the organization and clearly keeps the spirit of the goal-sharing program alive.

Fourth, initially the program required considerable education. The focus of this education was in translating performance measures of the business unit with the actions needed by people to be successful. Rather than letting people figure out for themselves what was needed, the education and discussion sessions were seen as instrumental to achieving a jump-start to the program. As measures change for the business unit, people often need to be educated about the key performance drivers. This once again supports the corporate values of people and business development.

Finally, Corning has learned that competitive advantage is sustained by the involvement of their people. It seeks opportunities to get employees involved in the improvement process and implementation of change. This supports the continuous improvement process and allows people to see how they can make a greater contribution to the company. While the degree and effectiveness of employee involvement varies across units, there is clearly a high standard within the corporation. Goal sharing answers the fundamental question often associated with employee involvement efforts—“What’s in it for me?”—before it needs to be asked.

Continuing the Improvements to Goal Sharing

One of the recent enhancements to the program has been to offer employees the option of taking the goal-sharing awards in cash or company stock. Individuals are able to purchase stock with their payouts at 85% of the market value through the company’s employee stock purchase plan. This has the added benefit of linking individuals into the long-term success of the company. It was important, however, to introduce this feature only after the goal sharing had become integrated into the business. That was achieved approximately three years after the program was introduced beyond the Blacksburg plant.

Corning continues to change. Business units are being divested and new ones are being created. The marketplace for their breadth of products is changing rapidly, and Corning is attempting to do what is necessary to remain the leader. Many of the groups that spin off from the corporation retain a similar version to the goal-sharing program. This alone is a statement of how positive the impact has been on the organization.

The program has changed and developed over time. Corning has maintained the core principles of the plan and applied the process to a wide range of organizational units. While at times the process is difficult, few would be willing to return to straight salaries and limited bonus opportunities. They have seen the power of this program and continue to move forward. Managing the process of change and seeking solutions to perplexing problems of market leadership continues to be a major challenge.