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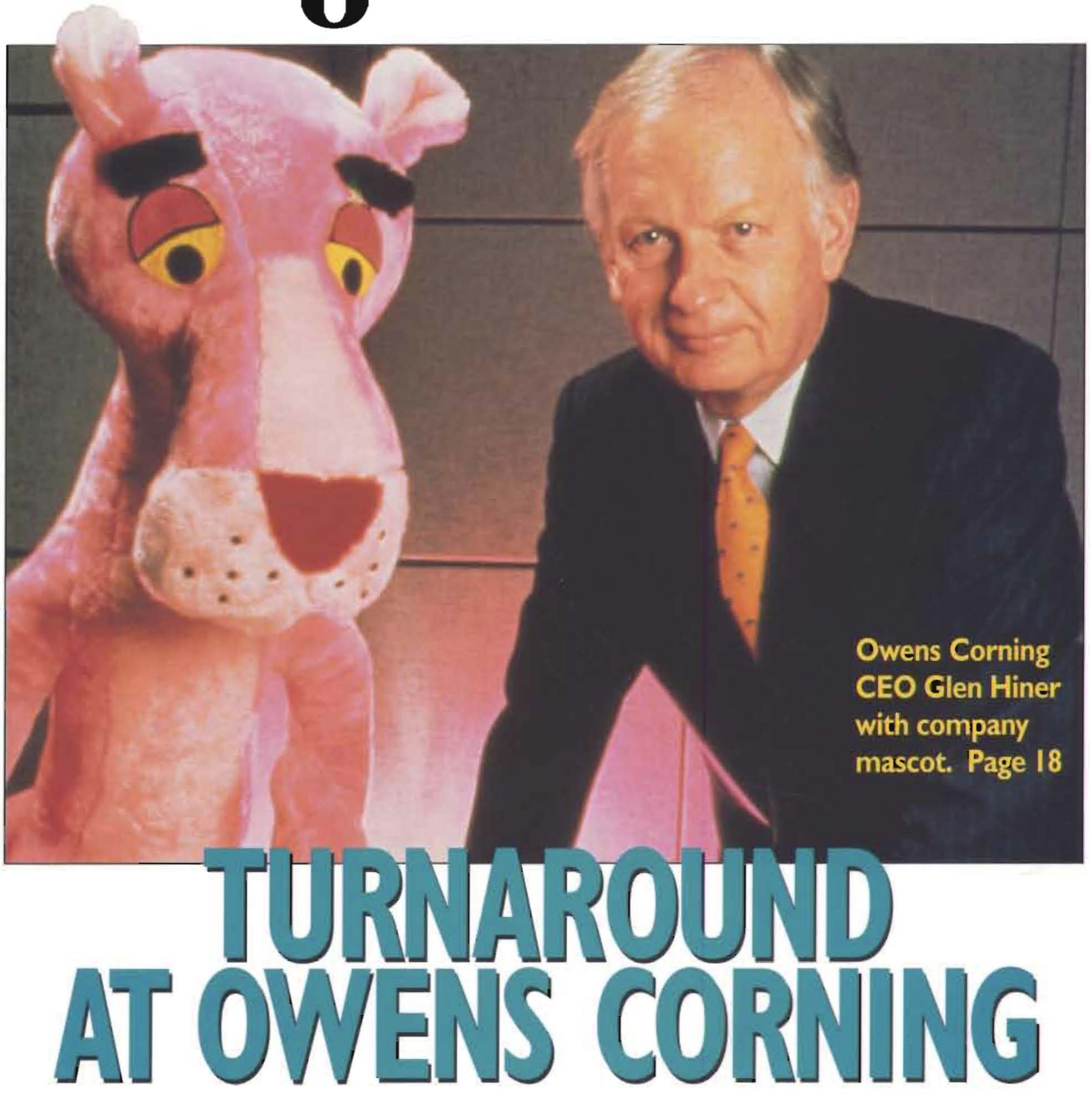


Owens Corning CEO Glen Hiner with company mascot. Page 18

TURNAROUND AT OWENS CORNING

AMERICAN MANAGEMENT ASSOCIATION

Getting In the Pink

A Midwest manufacturer sparks a renaissance with a makeover of its computer systems and corporate practices.

BY ANITA LIENERT

Hotdogging freestyle skiers leap into the air, executing high-flying scissor splits, 360-degree turns and other gravity-defying moves. To some, they may be the epitome of foolishness. To others, they are among the most courageous and talented athletes in the world.

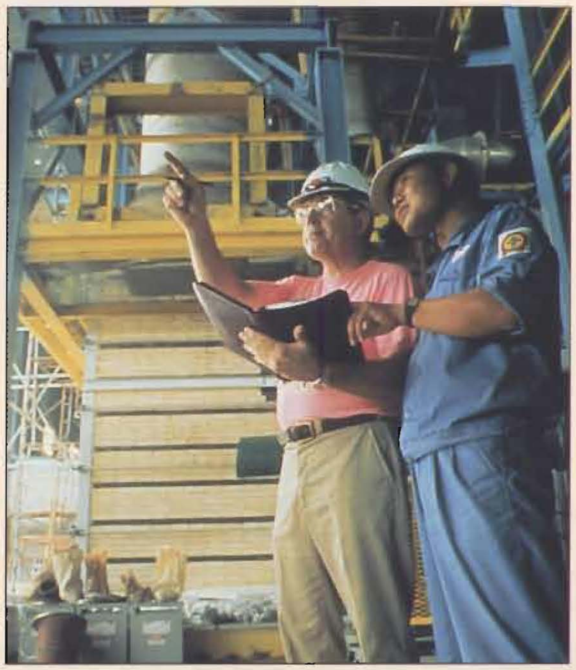
You can see the freestylers on the slopes at the Olympic Games and in the most surprising of places: a dramatic poster display in the lobby of Owens Corning Fiberglas Corp. in Toledo, Ohio. The $3 billion company, which most people know by its Pink Panther mascot, sponsors the daredevil sport.

Why not bowling or golf—something a little more down-to-earth and less risky?

Because corporate officials say it wouldn't reflect how the company has pushed "the boundaries of the possible," breaking through such obstacles as an unfriendly takeover attempt in 1986, the death of a beloved chairman in 1991 and thousands of asbestos lawsuits that could have brought the 55-year-old maker of advanced glass and composite material to its knees.

But sponsoring freestyle skiing is only a small part of the story of how a rust-belt giant with 18,000 employees determined to reinvent itself—and now thinks of itself as an industrial visionary.

PHOTOS: COURTESY OF OWENS CORNING



From left: Glen H. Hiner, chairman and CEO with the company's mascot, and in a team meeting at the Science and Technology Center in Greenville, Ohio. Right: A management consultation in a furnace hall at LG Owens Corning Corp. in Korea.

"Survival was the genesis of the vision," explains Glen H. Hiner, Owens Corning chairman and CEO, who is overseeing the corporate reengineering dubbed "Advantage 2000," with its goal of turning Owens Corning into a $5 billion company in four years. "We didn't have the capability to communicate with our customers in the way that they are demanding."

The vision includes how Owens Corning embraced SAP, a tough German systems integrator that is not only remaking the company's information systems, but is also forcing radical changes in long-standing and often ineffective business practices. Owens Corning is said to be the first U.S. corporation to go global with the SAP approach. And executives hope an end result will be an increase in Owens Corning sales outside of the United States from 27 percent in 1995 to 40 percent by 2000, as well as getting a bigger slice of the $250 billion global home-improvement market.

Owens Corning will invest $62 million between 1995 and 1997 on Advantage 2000, but says the program will generate at least $43 million per year in savings by 1999. Pink may be a recognizable color at Owens Corning—there are plenty of life-size Pink Panther stuffed animals decorating executives' offices—but it's the last hue anyone here wants to see on a balance sheet.

Because SAP does not customize a system to a client's needs (it uses off-the-shelf technology), it forces business processes to be tightly integrated across applications and across departments, ensuring corporatewide consistency of information.

With the old computer systems, the sales representative's computer in Des Moines, Iowa, couldn't "talk" to the manufacturing plant's computer in Irving, Texas, in the same language. Crucial sales, inventory and production numbers often had to be entered by hand into separate computer systems.

Working this way is costly, time-consuming and likely to kill the most determined reengineering effort. SAP software not only allows Owens Corning to standardize its information systems, but provides a road map for centralizing business activities.

To make SAP work,

THE COMPANY:

Owens Corning Fiberglas Corp., Toledo, Ohio

THE CHALLENGE: To reach a corporate goal of $5 billion in annual sales by 2000, outmoded sales practices and Tower-of-Babel-like computer systems must be discarded without major disruptions in day-to-day business operations.

THE SOLUTION: Swallow the elephant a bite at a time by doing a gradual rollout of corporate reengineering and making the centerpiece an off-the-shelf information system that forces changes in ineffective business practices.

Owens Corning had no choice but to remake its operation, including getting rid of all the plant accountants at more than 30 factories in North America. SAP also encourages busting traditional corporate hierarchies, which means that assignments are related to competency, not job title. In fact, a 22-year-old college intern named Molly Price had the honor of showing the chairman how to use the new system.

Owens Corning also took a hidebound salesforce—"old guys with sausage-fingers out of Peoria," as one executive put it—and yanked them into the '90s, with new variable pay-and-benefits programs and no more field offices. Learn the computers, work out of your homes and forget the luxury of having a secretary to help handle customers, they were told.

Bonuses are now being given on a quarterly—rather than annual—basis, making the company more responsive to good performance; but there are also risks involved. Employees will get only 35 cents on the dollar through the company's 401(k) pension plan, 15 cents less than the old days. But if Owens Corning performs well, the company may match up to 75 cents.

Finally, there's the story of Toledo, a town that has suffered in the past from corporate defections and "low community self-esteem that fueled a negative image," according to a local economic development council report, yet somehow managed to prevent Owens Corning from pulling up stakes.

Of course, a tempting tax-abatement plan helped. And so did the fact that many of the company's key executives are sons of steelworkers from places like Hicksville and Columbus, Ohio—men with a stake in the fate of the Midwest.

"It would have been much easier for them to go to the suburbs or let some Southern governor romance them," said Rick L. Weddle, president of the Toledo Regional Growth Partnership. "But they didn't. And it became a defining moment for the community."

Serious Second Looks

The Owens Corning comeback is the biggest story in Toledo, a blue-collar town on the Michigan border that's famous for its Jeep plants and Tony Packos, a Coney Island restaurant that became a pop culture icon thanks to frequent mentions by Corporal Klinger on the TV-show M*A*S*H. That local hot spot lines its walls with plastic-encased hot dog buns au-

BATTLING BILLIONS IN ASBESTOS CLAIMS

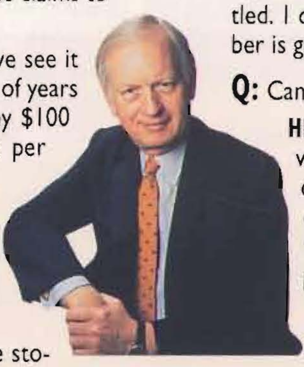
One of the biggest problems Glen H. Hiner faced when he became chairman and CEO of Owens Corning in January 1992 was a slew of asbestos litigation that he says was largely ignored by his predecessors. Before he could concentrate on Advantage 2000, the corporate reengineering program, Hiner needed to deal with the asbestos problem.

Hiner, who will be 62 on July 22, came to Owens Corning following a 35-year career with the General Electric Co., where he was head of GE Plastics from 1978 through 1991.

Q: What did you discover about the asbestos litigation claims when you first came to Owens Corning?

Hiner: In 1991, it just surfaced and it needed dealing with. There was a lack of leadership and nobody tried to deal with it until I got here. I said this is just a Chinese torture thing. We have to deal with it and address it. And that's when we took the charge against '91 operations and made a noncash reserve for claims through 1999; 1991 was a bad year.

Q: How much of a drain on the business are the asbestos claims to this day?



Hiner: Financially, we see it for the next couple of years costing the company $100 million after taxes per year.

Q: Can you describe the asbestos story in a nutshell?

Hiner: It's a terrible story in the history of any company. Owens Corning produced an insulation product that contained asbestos for 14 years, from 1958 to 1972. Their total sales during that 14-year period were $135 million. The gross margin, from what we can tell from the records that the company made on those sales in that time period, was about $7 million. What we have paid and what we have on our books to pay, either from our own cash or from our insurance carriers, exceeds $2.3 billion through 1999.

Q: How many claims in total?

Hiner: We have claims we've settled and claims that are still pending to be settled. I don't know what the total number is going to be.

Q: Can you ballpark it?

Hiner: We can, but today, the whole thought of tort reform has caused an inrush of claims because the plaintiffs' bar is trying to beat deadlines that will be imposed. We think that a significant number of the claims being filed against us have no merit at all. So to count those as a claim is not really the right thing to do.

Q: How many claims did you have in 1995?

Hiner: We had something like 40,000 claims. But 80 to 90 percent are nonmeritorious claims.

Q: How will SAP and Advantage 2000 help resolve the asbestos litigation problem?

Hiner: Advantage 2000 will have no direct impact on our asbestos litigation.

—A.L.

"Survival was the genesis of the vision. We didn't have the capability to communicate with our customers in the way that they are demanding."
—Glen H. Hiner, Owens Corning chairman and CEO

tographed by everyone from Bill Clinton to Eva Gabor.

But now, both Toledo and Owens Corning are getting more serious second looks. The company won the 1995 Overall Excellence category in *CFO* magazine's Reach Awards, beating out 250 other contenders, including Pepsi-Cola and AT&T.

"What the Reach Award winners illustrate is the ability to think outside the box, to break the rules, shatter assumptions and find radically new ways of doing things," wrote one judge.

Every interview with Owens Corning employees and executives seems to lead to new insights and new tangents in the comeback story.

Gregory Thomson, senior vice president of human resources, gets settled in his office, ready to explain the variable pay-and-benefits system that began in January 1996, when he suddenly jumps out of his chair. "Follow me," he tells a visitor, leading the way across the hall and pulling open the drapes on a picture window to reveal a huge construction site hugging a curve in the Maumee River.

"That's our new $100 million corporate headquarters that will be ready in September," Thomson says, pointing to the facility that Owens Corning will lease from the city. "It's

Michael D. Radcliff, vice president and CIO encourages "good-enough reengineering."

> *"It would have been much easier for them to go to the suburbs or let some Southern governor romance them."*
> *—Rick L. Weddle, president, Toledo Regional Growth Partnership*

three football fields long and physically representative of the way we intend the corporation to be. It'll be more like an airport terminal than an office building—socially interactive, exciting and bright."

Good-Enough Reengineering

It's no surprise that the architect who designed Cleveland's Rock & Roll Hall of Fame is responsible for Owens Corning's new home. But as company officials admit, the changes have sometimes struck a discordant note. Executives and managers are fine-tuning and rewriting the score as they go along. Even things like corporate terminology come under intense scrutiny. For example, employees selected to undergo SAP training were first called "power users." But since that was perceived as being "too aggressive," according to one executive, they've been rechristened "champions" and undergo "champion training."

And there's no predicting what the next few years will bring as the company continues a gradual rollout of the SAP system and Advantage 2000. But the corporate mantra seems best summed up by Michael D. Radcliff, vice president and chief information officer: "Avoid the perfection mentality. We want 'good-enough reengineering.' So we are providing an environment where you make as many mistakes as quickly as you can."

The first corporate guinea pig was the 400-member finance organization. Domenico Cecere, president of the roofing and asphalt division and former vice president and controller, says SAP is not just about bringing 5,000 new PCs into Owens Corning.

"If you're taking your old processes and trying to use SAP, that's cramming your foot into the wrong shoe," he said. "I will tell you, the problem that you have is your foot is the wrong size. And you really have to take a look at what big feet you have. If we just went out and bought new hardware and software, we never would have gotten any savings. You can't get the efficiency if all you do is put new stuff in and do business the old way. If you put the old way we did things onto SAP, you'd probably bring it to its knees."

One of the first changes in finance: taking 30 different ways of doing payroll and payables out of what Cecere calls the "fiefdoms" of the North American factories and handling it with $7-an-hour help out of a central shared services location in Charleston, W.Va. The initial result: Owens Corning was unable to pay its factory vendors for a time last summer because the system crashed.

"It was very disruptive," said Cecere. "To the point where the plant managers were calling, saying, 'You're going to prevent me from being able to manufacture because my vendors won't deliver because you haven't paid the bills.'"

Cecere credits top management with helping middle managers work through the snags.

"George Kiemle, the vice president of manufacturing, didn't say to me, 'Dom, you SOB, I'll never do this again. I'm going back to the old way,'" said Cecere. "He called and said, 'Dom, how can I help?' When you do these kinds of things, it will be disruptive and you'll have some problems. You have to have senior management behind you all the way.

Six months later, not only has that situation been resolved, Cecere reports positive feedback from U.S. plant managers.

SAP: REENGINEERING SPECIALIST

Perhaps the best illustration of the success of German upstart SAP AG is the fact that four of its cofounders made the 1995 billionaires' list in *Forbes* magazine.

"He who best fits a situation gets the biggest chunk of the cake," SAP Deputy Chairman Hasso Plattner told Forbes. "The traditional U.S. competition got caught totally wrong-footed."

Headquartered in Walldorf, Germany, SAP (short for Systems, Applications and Products in Data Processing) is the undisputed leader in client/server software designed to manage everything from personnel to manufacturing under a single interface. What this means is that all computing functions of an enterprise are integrated in a seamless web. Example: when a company adds an employee, programs that handle payroll, personnel and profit-and-loss are automatically updated.

Founded 24 years ago by four ex-IBMers, SAP now counts as clients such U.S. companies as Apple Computer, Dow Chemical and American Airlines, and generated $1.2 billion in revenues in 1994.

The company's North American subsidiary, based in Wayne, Pa., charges $1 million for a typical installation.

For more information, check out the SAP Web. site: http://www.sap.com.

An employee operates a product mover in packaging robotics at a composites manufacturing facility in Jackson, Tenn.

"The system has moved us forward," Cecere said. "It used to take four accountants to close the books at one plant. We now have one accountant to close four plants."

Open Books, Open Goals

Charles Chambers, director of financial reporting and forecasting, says SAP and other corporate changes have made his life easier. For example, he says quarterly and annual filings with the U.S. Securities & Exchange Commission have changed from a "hernia-provoking experience that took two days to a nonevent that takes two hours." And now 14 people in his department do what it used to take 19 to accomplish.

Chambers is anxious for late 1997, when the whole corporation will be linked to a common computer system, accessed by all salaried personnel and 30 percent to 40 percent of assembly-line workers.

"When we all get on-line, I'll be able to walk into my office on a Monday or any other day and punch a few buttons and find out what sales are month-to-date on a worldwide basis," he said. "We can't do that now because our systems in Europe don't talk to systems in the United States. We'll also be able to know critical information like profitability by customer and the margin contribution by each salesperson. The goals are limitless."

Still, there are fears about security, especially in a new atmosphere of sharing information.

"The concept is that anybody can go in and run our financial schedule using SAP," Chambers said. "But I can lock people out, too. I don't want quarterly financial reports going to just anyone until we've released them. And they won't."

The highest expectation is for the company to become more sensitive and responsive to do-it-yourselfers and small contractors. Those buyers who comprise the backbone of Owens Corning's business were often unwittingly shunted aside in the past—victims of incompatible computer systems and outmoded sales practices. Because many of the company's computers were not linked, it was sometimes impossible for salespeople to check on availability of products from the factory, make decisions on pricing or correct problems on an invoice.

With SAP and Advantage 2000, the Owens Corning salesforce will not only have access to up-to-date information, but have pricing authority and more opportunities to make decisions rather than handing them off as well.

Explained Frank Glover, vice president of process development: "Under the old system, it would take two to three months for a customer to have a claim handled. It was absolutely terrible. The information wasn't documented or it was inaccurate. There were all kinds of problems with invoices. In the future, a sales guy can plug into the system and say immediately to a customer, 'You're right. There's a problem. I'll fix it right now.'" MR

Anita Lienert is a Detroit-based writer and a frequent contributor to Management Review.

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