



*“If you talk about the evolution of people in organizations, the CEO has to be able to evolve as well. There is a relentlessness of purpose required because you are never done reinforcing culture.”*

**Robert Reiss:** Honeywell is a \$40 billion organization with a lot of different components to it and approximately 130,000 employees. Talk about what the company is to you.

**Dave Cote:** The company has been my life for 14 years. We developed a business model 14 years ago that comprises three pieces: portfolio, process, and culture. That is how I describe how we think about the company - making sure that we have a superb portfolio, with great positions, good industries, defensible technology, diversity of opportunity, and a constant process focus, combined with a culture that drives all of those. Culture is important because when we started off it was three unintegrated companies brought together, and it was a mess. We needed to establish a single culture, and this has worked well. People are pretty proud of Honeywell.

*“Honeywell has a supreme position in software. We’re the first large western company to achieve CMMI® Maturity Level 5 across the board because we started about six or seven years ago. We are going to drive this across the company.”*

**Are there any secrets to building a great culture?**

It is relentlessness of purpose. Anytime that you think that you are done, or you have told the story a couple of times already so everybody gets it, or they all nod their heads, it is still not there. You have to constantly be reinforcing it with your words and with your deeds, and you have to act the same way. If you talk about the evolution of people in organizations, the CEO has to be able to evolve as well. If you talk about the significance of the customer or the significance of “One Honeywell,” you have to be able to demonstrate that, in addition to talking about it. There is a relentlessness of purpose required because you are never done reinforcing culture.

**Let’s talk about your supply chain. What are some best practices that you have used?**

If you look at the supply chain, too many manufacturing companies have a tendency to look at suppliers and say, “Okay, I have given this to the supplier, so my job is done. As long as I place the order, it is their responsibility to design it right, get it there on time, and make sure the quality is good - and I will hammer them if they don’t.” That is not the right way to do it, because if you take a look at every dollar of sales, about 50 cents of every dollar goes to suppliers in an industrial company. You can’t just ignore them, or abdicate your responsibility; you have to be a participant.

Supply chain to me is when we look at purchasing or sourcing or whatever the most contemporary word of the day is; it is not just about placing the orders or picking the right supplier. It is about: Do you have the absolute best supplier? Do they have the processes that are capable

of keeping up with you? And, how do you make sure you don’t get surprised by a supplier that is incapable? You have to be thinking about all of this ahead of time.

**At Honeywell, you are known for being one of the leaders in terms of quality. How would you define quality and what it means to you personally?**

That is an interestingly broad question. You are right, quality does matter and not just in terms of product.

**It is not the same old “just quality.” Now, it is continuous improvement, customer experience and predictive analytics.**

You mentioned continuous improvement; some companies make the mistake when they start on a continuous improvement path thinking that ‘this will be done in two years.’ The correct way to approach continuous improvement is through evolution.

I saw this happen, for example, with the Honeywell Operating System when I looked at it and said, “We need a system in the company. We have a lot of manufacturing plants. But we don’t have a thought process or a system to drive quality, delivery, safety, inventory, and cost.”

So I sent about 60 or 70 people down to Toyota in Georgetown for a couple of weeks. They came back and they were just filled with the “holy spirit” about quality. They wanted it to go across the company, everybody at once, not just the factories but to every single person in the company. I can remember at the time saying, “Look, I completely agree with you conceptually. But if we do it this way, this will die of its own weight. It is



just too much for people to absorb, and you will just be doing too much stuff that doesn't matter." It is important to have a quality focus whether it concerns products, or how you design your processes. But you also have to be thoughtful about how you embark on continuous improvement to make sure that you are actually getting the results you are looking for.

I can remember 25 years ago doing a "best practice" visit to a company that was really focused on quality. They served lunch and they said, "You need to fill out the survey form." I said, "Survey for what?" They said, "Well we need to provide feedback to the lunch people about the quality of every lunch." I asked, "Are you guys serious? Haven't you gotten a little carried away here and forgotten what it is you are trying to accomplish?"

I am all in favor of continuous improvement. It needs to be recognized as an evolution, not just a revolution where you get it done and then you are on to something else. But you have to constantly be working on it, and focus on changes that are going to make a difference for the company and for the customer. And it is important to channel how you think about it. Otherwise, you will just end up with this broad-based mess.

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**What you just said is the new definition of quality for the 21st century.**

Great! Nice to know we are on the right path.

**Have you ever had a time when there were challenges with quality and you said, "We learned a lesson from that?"**

You are never as good as you would like to be. I can't say that we have had a particular problem that has occurred where I have asked, "How the heck did that happen?" I have had small instances, but I can't say that we have had a big miss where I wondered, "Was everybody asleep on this one?" Or we did something totally wrong.

**The point you are making is that quality is doing things that are important and not just for the sake of it. That is how you get results with continuous improvement is continuous improvement.**

I always talk about it as evolution. Whether you are a person, an organization, a company, or a country, you have to constantly be evolving. Whatever is true today and whatever you are doing that makes sense today is

probably not going to make that much sense the next day. You have to be looking at everything around you and you need to be evolving along with it, which is very consistent with the spirit of continuous improvement.

**You have had a growth rate of 490% during your tenure. Is Honeywell still a good investment?**

Absolutely – it is still a good investment.

**Based on that, how do you go about developing strategy? What are the core components?**

We always go back to our business model. When it comes to portfolio, it has to be in a great position and a good industry with a defensible technology, so that is where we start. If it doesn't meet those criteria, then it is not something we want to be in. You have probably seen that with both our acquisitions and divestitures. We are pretty consistent with that.

Strategy is not that hard. When it comes to strategy, I try to keep it simple. I have often paraphrased Thomas Edison who said, "Invention was 1% inspiration, 99% perspiration. Business is 1% strategy, 99% execution. Do a great job for your customer every day, and it is amazing how the strategy will take care of itself.

**How would you define your leadership philosophy?**

There are three big things required of a leader. One of which is to be really visible, which is one of the criteria that everybody externally tends to measure you on, and the ability to mobilize a large group of people.

You can do that a number of different ways: The inspirational speech, everybody likes you, they like your vision, whatever it is. But that is 5% of the job, and it is the only visible piece of the job.

The second big one is whether you have picked the right direction. If you motivate everybody but you still spent 40 years wandering in the desert, you are not a good leader. No matter how motivational you are or how inspirational your vision, if you are taking them down the wrong path, that is not a good place to be.

The third one is, now that you have motivated them and you have picked the right path, can you actually get the whole organization moving step-by-step in that direction? When you have over 100,000 employees, that is a lot more important than people sometimes think. I see too many leaders who tend to think it is their job to just do strategy and delegate the actual doing of things.

You can't do that. As a CEO or as a leader, you have to feel just as responsible for getting everybody moving in the right direction

once you have picked the direction. Those last two are 95% of the job, and it is the part that is not visible except over time. You don't see it in the first two weeks or first two years. Over five years you will see it.

**In our world of digital disruption, companies are taking over industries and companies are losing industries. How do you view accelerated change?**

For us, it is a good thing because it gives us opportunities. As long as we are evolving faster than our market and our competitors, we are going to do very well. We are 150 years into the industrial revolution and we are



*Dave Cote, chairman and CEO of Honeywell International, Inc., and 1976 alumnus, was the keynote speaker at the University of New Hampshire's 141st commencement at Memorial Field Saturday, May 21, 2011 (Mike Ross/UNH Photographic Services)*

only 40 years into the IT revolution. So this has a long way to run. That is the opportunity and I see ourselves having a supreme position at this point.

### So it is just ramping up now?

It is just starting. This has at least another hundred years to go before who knows what comes up next. But it has a long, long way to go. We have 23,000 engineers, so you tend to think of us as, “chemicals, jet engines, turbo chargers, controls, mechanical and electrical products.” The fact is that about half of our engineers are developing software for simulation, product enablement or as a business. That software is going to be significant because we are seeing a shift in the digital world where everything up to this point has been digital-to-digital.

As we move into the digital-to-physical space, which is where we excel, domain knowledge matters. In this digital-to-digital world, if you have a bug in your software it

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is a pain in the neck, and two weeks later somebody issues a new release and it fixes it. But if you have a bug in the software that runs your refinery, or runs your factory, or runs your building, you can’t wait for two weeks.

That is why something like CMMI® Maturity Level 5, which is a quality process for developing software, is so important. We are the first large western company to be certified CMMI® Maturity Level 5 across the company. I am comparing this to what Edward Deming went through with product quality where even though it was something developed in the U.S., he couldn’t get anybody to listen. So he went to Japan where they listened. Then we had the Japanese auto invasion, and it completely changed our auto industry.

You’re going to see the same thing on the software side. CMMI was developed by Carnegie Mellon. If you look at all the CMMI companies, they are in Japan, China, or India. Honeywell has a supreme position in software. We are the first large western company to achieve CMMI® Maturity Level 5 compatibility across the board because we started about six or seven years ago. We are driving this across the company. It gives us a huge advantage.

**How do you engage in the world of cybersecurity and digital disruption? Where does that sit? Is it with the board? Is it with governance, with the executives, with legal, with insurance, or with IT?**

No. Cybersecurity is my job. There are the unknown unknowns, the known unknowns, and that kind of thing. This is the big known unknown. We all know it but even if you think you have it under control, often you do not. There could be something rooting around in





your system right now that you just don't know.

Whenever a Defense Department auditor wants to come in and audit our systems I say, "Have at it. I would rather have you find it than somebody else. So you just go ahead and do whatever you need to." Honeywell gets very high marks on cyber security because we do a very good job at it. We actually sell it as a service in our aerospace business and in our process controls business because we do such a good job with it. That being said, it is top of my mind constantly.

**You have a reputation at Honeywell for having an exemplary Board of Directors.**

Thanks.

**What would you say are the best practices in governance?**

The whole world has gone a little crazy in terms of their expectations of a board. If you take a look at what, to me, comprises the best board -- and this is what we have tried to do with every single director we have ever picked -- it is somebody who has been successful and has run something big.

I felt like that is the best thing to have in our directors - somebody who has actually been there and has run something big. So if you take a look at every single director that we have, every one of them is either running

something big or has run something big, even the government officials who we bring onto the board have run something big. So they have a sense for what it takes to be able to make good decisions. The insights they give you are very good because they have been there themselves.

Because getting back to being a good leader means making good decisions. As long as you have the process, the capability, and the judgment to make good decisions, it makes all the difference in the world.

**What is your best advice to 10,000 top CEOs in terms of managing in a volatile, fast-changing environment?**

The line that I use with my own team when I am talking to leadership groups is that, as a leader, it is important for you to be correct at the end of the meeting, not at the beginning.

**That's great.**

Actually, I like it a lot because it is one of the things I had to develop as a capability myself. Because you start as an individual contributor, and your job is to have a point of view going into the meeting, advocate because you have to get that point of view across. Well, the higher up you go, the less you know. You know a little about a lot of things, but you don't always know all the details about the subject.

If people know where you are coming from, you get the people who are just going to agree, you get the people

who are just going to disagree, and you get the people who just want a decision and then they will do whatever. You are not getting the best of their thinking. Whereas, if they don't exactly know where you are coming from in the beginning and you really work at flushing out from every single person in the room what their opinion is, then you end up making a much better decision. It means, for example, some of the things that I will do – if, say, there are 10 people in the room - is ask the most junior person first what they think. The first thing they will do is look at their boss. And I will say, “No, no. I want to know what you think.” It is a good way to get a broad view on issues.

**Dave, it has been great speaking with you.**

Thank you, it has been nice to be here.



*Alex Gorsky, Chairman and CEO of Johnson & Johnson, and Dave Cote, Chairman and CEO of Honeywell at the December 15, 2015 Sparkle of Hope annual gala.*



*Dave Cote and Robert Reiss – Interview aired 3/27/2016*

*Dave Cote is Chairman and CEO of Honeywell, a \$40 billion diversified technology and manufacturing leader. He was elected president, CEO, and a member of Honeywell's Board in February 2002, and named chairman of the Board on July 1, 2002.*

*During Cote's 14 years of leadership at Honeywell, the company has delivered strong growth in sales, earnings per share, segment profit, cash flow, and a total shareholder return of approximately 500 percent. More than 50 percent of the company's sales are outside the U.S.*

*Cote was elected in March 2014 as a director to the Federal Reserve Bank of New York to represent the interests of the public. Cote was named Vice Chair of the Business Roundtable (BRT) in 2011. In 2010, Cote was named by President Barack Obama to serve on the bipartisan National Commission on Fiscal Responsibility and Reform, also known as the Simpson-Bowles Commission. He has served on the U.S.-India CEO Forum of the since July 2005 and was named co-chair in 2009 by President Obama.*

*In 2014, Cote was selected for the prestigious Horatio Alger Award, and was named Institutional Investor's Best CEO in the Capital Goods/Industrial-Electrical Equipment & Multi-Industry category. He has been recognized as one of the World's Best CEOs by Barron's for four straight years (2013-2016) and was named Executive of the Year—Conglomerates at the 2015 American Business “Stevie” Awards.*

*Cote earned a Bachelor's degree in Business Administration from the University of New Hampshire, and, in 2011, the University presented him with an honorary Doctor of Humane Letters. In 2009, Cote was made an honorary professor at the Beihang University of Aeronautics and Astronautics in Beijing, China. In 2001, Cote received an honorary Doctor of Laws degree from the Graziadio School of Business and Management, Pepperdine University.*