

WINNING NOW, WINNING LATER

How Companies Can Succeed in the Short Term
While Investing for the Long Term

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PART ONE

LAY THE FOUNDATION

Banish Intellectual Laziness

In 2003, about a year after becoming Honeywell's CEO, I traveled to the headquarters of our Aerospace division in Phoenix, Arizona, to conduct a review of the business. I was working hard at the time on implementing wide-ranging cultural change across Honeywell, and the Aerospace division seemed reluctant to buy in. No surprise: the executive leading it—I'll call him Rich—had interviewed unsuccessfully for my job, and likely harbored some resentment. In making the trip, I hoped to strengthen my relationship with Rich and his team, familiarize them with my desire to focus Honeywell on both short-and long-term goals, and offer up ideas for improving the division's performance.

My visit began smoothly enough. Shaking hands with members of Rich's team, I found them polite and seemingly happy to see me. We sat down in a conference room so that team members could present their strategic plan to me. A copy of the plan had been placed on the table facing each seat. Flipping through mine, I saw that it was thick—maybe 150 pages long, full of charts and tables. *Uh-oh*, I thought, *not good*. I had found so far at Honeywell that executives and managers often made presentations far longer than necessary, overwhelming audience members with facts, figures, and commentary in an effort to preempt sharp, critical questioning. "Looks like you guys have done a lot of thinking here," I said, pointing to the thickness of the binder. "I can't wait to hear it."

WINNING NOW, WINNING LATER

Rich nodded at a member of his team, who began running through the presentation. It started with a review of the market. So far, so good. But a few minutes later, when we were on page five, I stopped to inquire about the status of Primus Epic, a terrific new cockpit avionics system we were developing. The team assured me the project was proceeding on schedule and on budget. Then, a page or two later, I posed another question about maintaining our lead in another product line of ours, auxiliary power units, the engines that provide power to an aircraft when it is on the ground. Although Rich's team members answered my question and smiled politely at me, they seemed unhappy, exchanging glances with one another that seemed to say, "Can you believe this guy?" They continued with the presentation, but about five minutes later, when they were on page fourteen, I stopped them yet again, inquiring about overruns that had exceeded \$800 million on our biggest programs.

Rich had had enough. "You know, Dave," he said, "if you don't mind, I'd really like the team to continue. We'll get to that point soon enough."

I glanced over at him. "I'd like to know about it now."

"Really, we cover it later. I can assure you, all of your questions will be answered."

"Okay," I said, "I believe you. What page is it on?"

He glanced at one of his team members, who flipped through his copy of the presentation. "Top of page thirty-six," this executive said.

I went to the top of page thirty-six and scanned the chart there. "Nope, that covers just Primus Epic overruns. I want to understand the root cause of our overrun problems. Is it bad estimating? Bad executing? Something else? I want to get us to the point where we can anticipate the *real* cost so that we can plan for it and execute."

Rich shot me a hard look. "Dave, before we go any further, I have to object to how you're running this meeting. We put a lot of time and effort into crafting this pitch for you. Please show us the courtesy of listening to it all the way through."

"I understand, Rich," I said, "but let's discuss the purpose of this presentation. If we're here for the team to put on a show for me, then you're

BANISH INTELLECTUAL LAZINESS

right, I should sit back and listen. But if the point is for me to learn about your business and its issues, then we need to conduct the presentation in a way that facilitates my learning. I need to ask questions right away, get the answers I need, and then move on. Can we do that?”

Rich relented, and I was able to review their business in a rigorous and productive way that ultimately uncovered opportunities for better short-and long-term management. What I learned, to my chagrin, was that Aerospace had become adept at lying to itself, shoehorning costs here and there into a budget without acknowledging them openly. This put enormous strain on the organization, which then had to patch together significant short-term fixes throughout the year, including more aggressive bookkeeping and special deals with customers and others, to make its goals. A dysfunctional approach if I'd ever seen one.

Fundamentally, managing for both the short and long term isn't about changing specific processes, policies, or strategies, but rather about adopting a different, more intellectual mind-set. Planting seeds for the future while also achieving short-term results is much harder to pull off than just aiming for one of these goals exclusively. It's so hard, in fact, that many executives and managers throw up their hands. Absolving themselves of any responsibility to achieve both short-and long-term goals, they shrink from asking tough questions and actively shield themselves and others from probing too deeply. Instead of finding new ways to support innovation and investment while achieving short-term goals, they content themselves with the same old strategies, policies, and procedures, relying on accounting sleight-of-hand to make it all work.

Don't let this be you. You *can* achieve short-and long-term goals simultaneously, but that means you will need to puzzle it out, quarter after quarter, year after year. Challenge yourself, your team, and your organization to think harder about customers, markets, and processes than you previously have. Cultivate a mind-set of analytic rigor and attention to detail. Ask challenging questions of yourself and others, and push hard until you've uncovered satisfying answers, even if that means acknowledging difficult

truths. Decide right now to become a serious, engaged, and honest scholar of your business instead of a passive overseer of it.

ACCOMPLISHING TWO SEEMINGLY CONFLICTING THINGS AT THE SAME TIME

My own heightened appreciation for intellectual rigor dates from the early 1990s, when I served as CFO at General Electric's major appliance business. We were trying to reduce the amount of capital we deployed in operating our businesses, and in line with that goal, my boss had decided that our business unit needed to reduce the \$1 billion in inventory we maintained. Guess whose job it was to lead the inventory reduction effort? The assignment caught me by surprise—I wasn't sure how to proceed. I had seen other businesses flounder when pursuing such initiatives. The boss would decree that henceforth the company would only keep a certain amount of inventory on hand to shrink the amount of cash it had locked up. Months later, inventory levels would creep back up, and the amount of cash locked up would increase as well—*again*.

I wanted to try a new approach, but I didn't know what that would be. We convened a cross-functional team and asked them: Why *did* inventory reduction initiatives usually fail? What can we do differently? "If we're going to fail," I said, "let's at least do it differently. The definition of insanity is doing the same thing over and over, always expecting a different result." A manufacturing leader identified dissatisfied customers as the reason why these initiatives usually failed. Once a business reduced inventory, customer delivery usually suffered because we didn't have the items we needed in stock. Customers complained, and the sales force applied pressure on the business to stock more product. Eventually inventory levels were right back where they had been. Inventory levels and customer satisfaction were directly related. You could have lower inventory levels, or high customer satisfaction, but not both. You had to choose between two seemingly conflicting things.

That, at least, was the conventional wisdom. We wondered if we could

BANISH INTELLECTUAL LAZINESS

find a way to reduce inventory levels *while also* keeping our products readily available and ready to ship so that customer satisfaction wouldn't plummet. My team and I spent an entire day puzzling over it. At some point a team member urged us to take a step back and assess our entire process, from forecasting, to supply chain, to manufacturing, to transportation, to distribution. Running an analysis, we found that it took eighteen weeks end-to-end, from when a product was shipped out of the warehouse to the point when manufacturing was told to replace it and then it was produced, shipped, and replaced in the warehouse. That seemed like an extraordinarily long time. What if we could render the whole process more efficient, shrinking our "cycle time," as we called it, down to a couple of days? We'd be able to reduce warehouse inventory while still providing great customer delivery because we'd be able to replenish our stock much more quickly. The dramatically improved efficiency would also help us reduce a lot of operational cost. The overall impact could be huge!

Our team began working on improving our processes to reduce cycle time in forecasting, supply chain, production, and distribution. We began providing immediate feedback to plants on what had shipped that day, shortening supplier lead times, dramatically reducing lot sizes (the quantity of a product model we made during a given production run), and reducing transportation time to warehouses. Over a four-year period, these ongoing efforts reduced cycle time to about two weeks. We were able to cut inventory levels in half, while also improving our on-time delivery rate from the low 80s to above 90 percent. By striving to achieve two seemingly conflicting goals at the same time, instead of just focusing on one goal, we had prompted ourselves to think far more carefully about our business as a whole, and to pose questions nobody had asked before. This fairly intense intellectual process led us to reengineer a significant part of our business so that it functioned better across a range of metrics, not just one. Because our subpar process had been the underlying problem, and because we'd improved that process, we could sustain these gains over time.

MY “ANY NINNY” THEORY

Coming away from this episode, it was clear to me: leadership was, at its core, an *intellectual* activity. Any ninny could improve a given metric—that didn’t take much thought or creativity. The best leaders acknowledge the tensions that pop up all the time in organizations, and they get better results by probing deeper to resolve them. Conventional wisdom said that you could earn high margins on the goods or services you sold, but only at the expense of your sales volume. It said that you could empower front-line employees to make decisions, but only at the expense of your ability to maintain control and prevent mishaps from happening. It said that you could improve customer delivery, but only at the expense of your inventory reduction efforts. Great leaders, I came to believe, challenge themselves and others to understand their businesses better and rethink them so that they can achieve two seemingly conflicting things at the same time. That same intellectual discipline—that mind-set of rigor and curiosity—allows leaders to master what is arguably the most important conflict of all: attaining strong short-term results while also investing in the future to achieve great long-term results.

Even as I came to this realization, I was keenly aware that most executives and managers didn’t challenge themselves to pursue conflicting priorities, nor did they appreciate the intellectual effort this took. During the early 1990s, leaders at General Electric were so pleased with our inventory reduction efforts that they asked us to speak with other GE businesses to share what we had learned. After hearing our presentation, audience members would raise their hands and ask, “So, what was the single big thing you did to achieve these great results?”

“Well,” I said, “there was no single best practice. It was a mind-set of intellectual rigor we had adopted that made the difference. It’s this mind-set that you should be striving to replicate in your own organization.”

Audience members would nod their heads, but they didn’t really get it. A few minutes later, someone would raise his or her hand and say, “Okay,

BANISH INTELLECTUAL LAZINESS

yeah, it was a mind-set. But tell me: What was the *one thing* you did that really made a difference?” Audience members wanted an easy answer that would excuse them from having to think hard about their businesses, when in truth, thinking hard was the only real answer.

INTELLECTUAL LAZINESS RUN AMUCK

To my dismay, such intellectual laziness was endemic at Honeywell. When I arrived at the company a decade later, I stepped into an organization utterly unused to probing for root causes to problems and to advancing new and creative solutions. Executives and managers pursued goals along a single dimension, doing whatever it took to make their numbers in the current quarter without concern for their actions’ broader consequences. “We’ll worry about next quarter next quarter, and about next year next year,” people said. Businesses went around in circles, struggling to achieve short-term results and stagnating over the long term. Leaders never pushed themselves to develop the kind of new and interesting solutions that would permanently change their businesses for the better and achieve multiple goals at once.

Inevitably, such intellectual laziness coarsened the level of discourse that existed day-to-day. Many businesses operated the way Rich and his crew at our Aerospace division did. Lacking any drive to think deeply about their businesses, and unchallenged by leadership to do so, teams held meetings that were essentially useless, their presentations clogged up with feel-good jargon, meaningless numbers, and analytic frameworks whose chief purpose was to hide faulty logic and make the business look good. When you did a bit of digging, you found that most executives and managers didn’t understand their businesses very well, or even at all.

Certainly they didn’t understand their customers. I’ll never forget a trip I took early on in my tenure to an air show to visit with a customer of our Aerospace unit. The team had briefed me on the visit, and I had gone into the meeting, along with the leader of the business unit, his product manager, and the salesperson, thinking we would discuss a great new product we

WINNING NOW, WINNING LATER

had. As is my practice, I kicked off the conversation by asking if Honeywell was meeting their expectations. “I’m glad you stopped by,” the customer CEO said, “because we have just about finalized the lawsuit we are filing against you for nonperformance on our development project.” What!?! My colleagues looked at one another and at me in shock—none of them had known how angry this customer was. They had lacked the slightest bit of insight into how our customers were experiencing their relationship with us. I begged for time, and with a bit of scrambling on our part we were able to prevent the lawsuit from materializing.

But it wasn’t just this team, and it wasn’t just customers. Leaders at Honeywell hadn’t studied their operational processes in any depth. They didn’t understand the fundamentals of their technologies, their markets, or their business cycles. They didn’t know their supply chains. They weren’t in touch with how rank and file employees viewed the business. They didn’t understand key liabilities, such as the environmental lawsuits we faced. And they didn’t understand why their businesses were generating so little cash.

No wonder our company was performing so poorly.

MAKING SMARTER, MORE INFORMED DECISIONS

My first and most enduring challenge as CEO was to dramatically improve the quality of both our individual thinking and our group discussions. To convey how I did that, let me introduce a leadership framework I have long used. As I see it, leadership boils down to three distinct tasks. First, leaders must know how to mobilize a large group of people. Second, they must pick the right direction toward which their team or organization should move. And third, they must get the entire team or organization moving in that direction to execute against that designated goal. Most people associate leadership disproportionately with the first element: inspiring the group. They think of charismatic leaders like Steve Jobs delivering lofty speeches that blow people away and motivate them to perform. In truth, mobilizing people is only about 5 percent of the leader’s job. The best leaders dedicate

BANISH INTELLECTUAL LAZINESS

almost all of their time to the latter two elements: making great decisions and executing consistently with those decisions.

Leaders at Honeywell wouldn't have known a good strategic decision if it bit them in the leg, because they weren't putting in the time to understand their businesses and to regard them critically. To remedy this problem, I spent a great deal of time defining what it meant to make decisions in an honest, informed, deliberate way. The first and best way to do that, I realized, was to model the process of critical inquiry myself. I'd make it clear that, yes, we *were* going to push ourselves to achieve two conflicting goals at the same time. But rather than simply dictate these goals, I'd start team members down the path to making a sound decision, asking them critical questions about their businesses and prompting them to generate creative solutions.

The conversation I had with Rich in Aerospace was typical. Rather than listening passively to a presentation, I'd interrupt—firmly at times, but politely—with questions about the business. I would pose key questions to teams in advance of our meetings for them to ponder. Listening closely to their answers, I'd follow up with still more queries, and make it clear when I wasn't satisfied. Was I aggressive, demanding, maybe even a little (or more than a little) annoying? Absolutely. But, as the old saying goes, progress occurs because of the irrational demands of general management. I firmly believe that. Leaders must be demanding of their people, otherwise they'll achieve only marginal results. People and organizations are capable of far more than they think possible. At the same time, leaders don't have to be nasty about it. I always tried to pose my questions courteously, remembering how as an employee I responded better when leaders showed me respect rather than telling me that I was wrong or barking out an order.

Day after day, meeting after meeting, I'd politely but persistently inquire about key elements of the business. Sometimes people took my politeness as a sign of weakness. When they did, I corrected that impression. Others reacted negatively to all of my questions. Over time, they either developed more intellectual rigor or left the company. Good leaders enjoyed sparring with me, even if they found it taxing.

WINNING NOW, WINNING LATER

In 2006, I met several times over the course of a year with several senior leaders in our aerospace business tasked with improving the business unit's software development efforts. For weeks before these meetings, the team researched questions I posed to them. Tim Mahoney, then Aerospace's chief technology officer and now Honeywell's senior vice president of enterprise transformation, remembered how at our first session together I pummeled them with follow-up questions for five hours. We talked through the nuances of the technology the software developers were using, the financials, and the talent his team was deploying. "Yes, it was fatiguing," he said, "but it was also exhilarating." When he left the meeting, he remembered being "even more excited about what we were going to achieve" than he had been when the team had walked in.¹

NO MORE FUZZY THINKING

In challenging other leaders intellectually, I strove specifically to push them beyond the incrementalism that usually exists inside organizations—the tendency to consider the short-term implications of a decision exclusively and to ignore the long term. When leaders were thinking of adding capacity to an existing high-cost plant, I would ask them why they hadn't considered establishing a new presence in a low-cost, high-quality location. "Well," they said, "it's less expensive to simply build on to our existing plant." Taking this particular short-term business situation in isolation, that might have been true. But when you considered how establishing a new presence elsewhere might pave the way for future expansion, it actually might have made more sense to pay a little more now and build in a potentially lucrative new market.

Likewise, when leaders assessed which parts of their business were core and which were susceptible to outsourcing, they tended at first to regard 95 percent of operations as core. When we dug into it, we found they defined some operational areas that way simply because they regarded it as too expensive for the company to outsource those areas. They failed to consider

BANISH INTELLECTUAL LAZINESS

the broader, long-term picture: the cost of managing these parts of the business, the physical buildings required, the reduction in our ability to adapt to economic change, the cost of continuing to invest in these parts of the business, and so on. Factor in these hidden, long-term implications, and the cost equation often looked very different, making it far more desirable to outsource these supposedly core areas (in my experience, organizations can generally outsource between 30 and 70 percent of what they do).²

As CEO, I pushed leaders to think more deeply about the complex, long-term picture in every decision they faced. Further, I challenged them to think carefully about what might go wrong. It's so easy to discount low-probability events in decision-making, even though these events might prove disastrous if they do occur. By considering the downside more aggressively, our teams often illuminated important issues we might otherwise have missed.

You might wonder how much thinking is too much. It depends on the business and the type of decision. Long-cycle businesses have a tendency to turn even simple decisions into projects. Short-cycle businesses tend to move quickly, proceeding with only a superficial understanding of issues. In encouraging leaders to think more carefully before deciding, I sought to make them aware of their intellectual tendency as either a short- or long-term business. If the consequences of a decision were minimal or reversible, they might have spared some of the analysis and erred on the side of making a quick decision. Otherwise I asked them to take the time they needed to wallow in the details before deciding.

Take Your Three Minutes

While reading a book about the construction of the Panama Canal, I came across an anecdote about the project's chief engineer, whose math teacher used to say, "If you have five minutes to solve a problem, use the first three to figure out how you're going to do it." I repeated this story within Honeywell in an effort to get people to slow down and think about problems a bit more. On one occasion leaders of our Aerospace business unit were considering

WINNING NOW, WINNING LATER

whether to proceed with a possible acquisition. At the end of the meeting I asked the team if they really wanted to go ahead with the deal and if they could guarantee the results. Most of the team said yes right away, but the head of Aerospace at the time, Tim Mahoney, said, "I'd like to take my three minutes. Can I get back to you Monday?" I loved that response and readily agreed. Tim pored through the details of the deal yet again, taking the time to identify additional opportunities, and decided to proceed. We spent \$600 million acquiring that company. About five months after the deal closed, Tim's team landed a \$2.4 billion order we hadn't included when valuing the company. That extra three minutes really paid off!

PUSHING OTHERS MEANS PUSHING *YOURSELF*

Asking our leaders to make decisions in a more rigorous way meant that I too had to put in more work. Not only did I spend time in advance of meetings generating some key questions for teams, I also informed myself about the particular businesses involved, as well as broader trends affecting these businesses. During my fifteen years as CEO, I traveled to plants and customers in about a hundred countries to better understand our operations and the challenges they faced. Back at our headquarters, I read five newspapers a day as well as key business publications and books and magazines on a wide range of topics. I met with a variety of people—CEOs from outside our industry, financial types, investors, policy-makers—to understand how they were thinking about emerging trends. I also spent time during my blue book exercises sitting alone in my office thinking about our businesses. I posed questions to myself and tried to answer them, and I reflected on external trends affecting our markets, pondering how our businesses might have to adapt.

In keeping myself informed, I took it upon myself to develop a certain amount of functional expertise. Throughout my tenure at Honeywell, I would read up on diverse subjects such as information technology, law, and

BANISH INTELLECTUAL LAZINESS

social media. I knew trends in these areas were affecting our businesses, so I wanted to be able to talk about them. I hardly became an expert, but the questions I asked prompted team members who were experts to think in new and creative ways. Because they knew I'd be asking hard-hitting questions, they had to be ready to explain their business ideas to me in simple ways that even a layperson could understand—an exercise that forced them to refine their thinking. Simplicity and concision are tough. The French philosopher Blaise Pascal famously noted that he'd written a long letter, having lacked the time required to write a shorter one.³ As I believe, if you can't convey a thought clearly and in few words, then your comprehension of it is probably lacking.

My efforts to inform myself in diverse fields also prompted nonexperts on our teams to read up on them. If the gray-haired CEO knew enough about the Internet of Things (IoT), say, to be dangerous, our senior executives in legal, HR, or operations needed to as well. Otherwise they would risk looking uninformed during our conversations.

ALIGNING THE ORGANIZATION AROUND THE STRATEGY

Rigorous and informed decision-making is one thing, but it's not enough. Just because a leader makes a decision doesn't mean anything will happen. To achieve long-and short-term objectives at the same time—or any other two seemingly conflicting goals—leaders also have to take a rigorous and informed approach to execution. Too many leaders get lazy around execution because they feel it is beneath them. “That's why I hire good people,” they say. “It's their job to keep track of the operational details.” Leaders also believe they shouldn't try to micromanage the business. As they see it, people further down in the organization need a sense of autonomy in order to thrive, so leaders should delegate and get out of the way.

Delegation and trust are of course vital—you can't do everything yourself, and you shouldn't try. That said, you don't want delegation to verge into a total abdication of authority on your part. You must verify that employees

and the organization are actually executing as they are supposed to. I learned this lesson the hard way when I served as vice president of General Electric's consumer service division, which fixed the company's appliances for customers. The business was fairly sizable—about \$500 million in revenues—but demand was decreasing because of improving product quality (people didn't need to repair their dishwashers or washing machines as often), and our labor costs were too high. To improve the business, I embarked on a restructuring plan (a decision I only made thanks to numerous field visits with customers, service technicians, and others). I also invested heavily in a big information technology project to improve how we scheduled our service technicians. Once in place, this project would significantly boost customer service while reducing our costs.

Since I didn't know much about IT, I relied on our IT leader to keep me informed on how the project was going. Everything seemed fine—until one day, when the project blew up. It became clear that the system wasn't going to work and that we had wasted millions in developing it. What a disaster. Ever since, I made a practice of keeping far closer tabs on important projects.

The idea that as a leader you can focus on strategy and delegate its implementation to great people is a fallacy. You don't want to micromanage, and you do need to tailor the amount of oversight you give to the leader in question.⁴ But time is limited, and faced with urgent priorities, even the most talented people will let difficult, longer-term projects slide. Leaders must get out in the field to confirm that these projects are actually happening. They also must make sure the "machinery" works everyday—that employees have the tools and processes they need to execute their decisions, and further, that they're working hard to improve these tools and processes.

Part of the intellectual discipline I instituted for leaders at Honeywell was remaining well-versed in the executional details. I made it my job to understand reality on the ground, in large part, as mentioned, by getting out there and talking to frontline staff, but also by talking to managers a couple of layers down from me to get their opinions on key business issues, and by routinely querying my team members about how we were executing and how we might do things better.

THE LEADER AS PERFORMANCE COACH

Staying informed on execution isn't just about holding people accountable. By asking probing questions, I was also serving our leaders as a performance coach, keeping them focused on operations and giving them an intellectual framework they could use to solve specific problems. It's easy for a leader to say, "We need some new products. Here's some money. Go do it." But think of the benefit when a leader challenges people to think about *how* they're going to innovate so that they don't just fund a bunch of screwball projects. How will they set up ideation to ensure that lots of good ideas are generated? How will they determine which new product ideas to fund and which to jettison? Who will they assign to product development so that the organization takes it seriously? What will they do to ensure that technologists are interacting with the marketing team so that the market actually wants these new products? How will they understand the user, installer, and maintainer experience? Will a product manager own the product or service from the beginning to ensure that the introduction doesn't get bogged down?

In posing such questions, I was giving leaders the benefit of my experience, alerting them to the kinds of operational issues they would likely encounter when undertaking specific projects. During my career, I had learned firsthand why manufacturing processes went awry, or why organizations typically struggle with transformations, or why pricing increases didn't hold. Reflecting on my own successes and failures, I had developed a practice of asking questions in various situations as they arose so as to avoid my previous mistakes. By posing these questions to team members rather than providing easy answers, I helped them understand their business better and put them in a better position to execute, leaving it to them to come up with answers that would work in their specific situations. Hopefully, the time and effort I spent would increase the odds that team members would succeed.

TIGHTEN UP YOUR METRICS

As part of our intellectual discipline around execution, I insisted leaders apply a new scrutiny to metrics. When I arrived at Honeywell, every one of our plants had quality and delivery metrics that looked great. When we probed a bit, we learned every plant excluded harmful data that leaders didn't feel represented their performance very well. Consider, for instance, our measurement of on-time delivery of products to customers. If a certain percentage of customers placed their order outside of a plant's established lead time (how long it needed to deliver a product after an order was placed), or if their order hadn't been entered properly, these customers might not have received the product on time. And yet the plant in question still would have reported a 99-percent on-time delivery result. It would have excluded these orders from the measurement, reasoning that these weren't plant issues. Managers looking at this data in an attempt to understand our execution would have thought customers were entirely happy, even when a significant percentage weren't.

Problems such as these were endemic, so to fix them we audited measurement systems at every plant. I also prodded leaders to look closely at the metrics their teams were giving them and to ensure that they were building the right metrics into every operational plan they developed. I pushed them as well to look beyond the metrics in monitoring execution. Many people will say what gets measured gets done, but that's not necessarily true. If you measure something, the metric will get better, but the underlying performance might not improve at all. People will do whatever it takes to get the metric where it needs to be, losing sight of the business intent underlying the goal. It becomes "compliance with words," as I like to say, not "compliance with intent."

As leaders, we couldn't take performance as indicated by the metrics for granted. We had to review operations rigorously to make sure improvements in metrics reflected real improvements in the underlying processes. Often we looked to put balancing metrics in place to ensure that one metric didn't improve at the expense of other, critical parts of the business. In reducing

BANISH INTELLECTUAL LAZINESS

the cost of functions like finance, IT, legal, or HR, we didn't want the support those functions provided across the organization to be compromised. So we conducted anonymous internal surveys to determine if customer service from those areas was improving.

Not infrequently, our insistence on rigorous metrics led to significant improvements. For years we had tried but failed to improve the diversity of our workforce. We had mobilized all of the "best practices" and had eked out short-term increases in the percentage of our employees from diverse backgrounds in a given year, only to see those gains vanish soon afterward. Part of the problem was that we were forging policy at headquarters with only a limited knowledge of our workforce in local facilities. To remedy the situation, we created a sophisticated tool that combined our own data with data from the Department of Labor. The tool allowed us to track the availability of talent in local areas by job code, broken down by ethnicity and gender. Using this tool, we could compare diversity levels in particular plants and even in particular teams to the diversity in local talent pools. That allowed us to challenge managers who claimed, for one reason or another, they didn't have access to well-qualified, diverse talent. We could hold local managers accountable in a whole new way, simply because we were tracking the data much more closely than we had been.

We also began to measure the opportunities a leader had to improve diversity by tracking what happened with new hires and with attrition. Were leaders doing enough to recruit and retain diverse talent who had come onboard? Every leader reported on his or her progress in this area twice annually to myself and my staff. As a result of these efforts, we made steady progress year after year, rather than simply maintaining the status quo, as we had previously.

As I reminded leaders at Honeywell, execution matters much more than it seems. "The trick is in the doing," I said. It was great to make smart, informed decisions, but the real substance of any decision was getting it done. Leaders everywhere had more or less the same knowledge. We read the same books and periodicals. We talked to the same people. We had access to the same consultants. To gain an advantage, we at Honeywell needed to

WINNING NOW, WINNING LATER

execute better, and that meant understanding our operations better, looking for ways to improve, and putting those improvements in place. Leaders couldn't stand on the sidelines. That was the old way. They had to get out there in the field, immerse themselves in what their teams were doing, monitor progress, and hold people accountable. Then they had to use all of that executional knowledge they amassed to help inform their decision-making going forward.

THE BEAUTY OF "X" DAYS

You might find the prospect of modeling intellectual rigor for your team or organization daunting. How do you do it with so many demands on your time? For starters, I heartily recommend you dedicate time each month to learning about your businesses and engaging in unstructured thinking. It's hard to think, read, and learn when endless meetings clog up your day. I developed a practice of sitting down with my calendar at the beginning of each fiscal year and asking my assistants, Lois Brown and Debbie Mendillo, to designate two or three days each month as "X" days, during which they wouldn't schedule any meetings. I'd spend some of those days alone thinking about our businesses. On other X days I'd make impromptu trips to learn about our businesses or pay a surprise visit to a facility. I'd also designate twelve additional days as "growth days," holding intensive sessions with leadership teams to help them think through various growth or operations initiatives. My staff had to hold these growth days on their calendars as well so that we didn't have to reconcile our calendars in the event we wanted to schedule a meeting (team members got these days back to use as they pleased if we wound up not holding a meeting that included them). Sometimes I had to schedule meetings on an X day, but anticipating that this would happen, I set aside more of these days at the beginning of the year than needed.

On my regularly scheduled days, I made sure to free up as much time and mind-space as I could for thinking. If you haven't gotten serious about tightening up your calendar, now is the time to start. Do you really need all

BANISH INTELLECTUAL LAZINESS

those meetings? Are there ways to minimize the length of essential meetings and still make progress? I am not against meetings—they are essential for leaders, not least because they help us bring facts to the surface and generate good decisions. At the same time, so many meetings are excessively long, unnecessary, and inconclusive. One of my favorite techniques is to require that teams provide me with a summary page at the beginning of the meeting or beforehand so that I could get the gist of the issue up front as well as the team’s recommendations rather than waiting for the story to unfold.

“BRING-UP NOTES” AND BLUE NOTEBOOKS

To minimize the number of follow-up meetings required to resolve issues, and thus maximize the time on your calendar for thinking, I recommend ending every meeting by establishing the who, what, and when of any follow-up actions. Just because a team reaches consensus on an issue doesn’t mean a decision will actually be implemented. Be clear what the follow-up action is, and when it comes to the “who,” never accept “the team” as an answer. You want the name of someone who will stay awake nights to make sure the required work gets done. On “when,” remember Parkinson’s Law, which says that work expands to fill the time allotted. Don’t be afraid to create tight timelines, because sometimes the culture demands them. In one instance, I asked a finance person when they could perform a task for me. Clearly not used to being asked, the person responded, “Two weeks.” Pointing to my watch, I said, “What time *today*?” The task was handed in by 5:00 P.M. that day. Sometimes organizations get used to telling time with calendars instead of watches, and it has to stop.

Also be sure to make the most of your unstructured hours between meetings. A great technique to try is what I call “bring-up notes.” In their capacity as managers, most leaders keep track of all the deliverables people owe them and when. Rather than waste mental energy thinking about all that, I wrote down each deliverable and the due date on a separate piece of paper at the end of a meeting and had my assistant file it. Every day she

WINNING NOW, WINNING LATER

handed me “bring-up notes” for items that had been due the day before. If I had already received the deliverable, I tore up the note. If I hadn’t, I started inquiring about when I’d receive it. With bring-up notes, I was able to keep everyone accountable, allowing myself more time, energy, and mental space to read and think. Bear in mind, this began in an era before smartphones. These days productivity apps and other software can serve a similar function for you, especially if you don’t have an assistant.

To help myself think independently, and to stay fresh in my job, I also got in the habit of keeping what I called my “blue notebook,” a place to collect all of the new ideas and questions I came up with during the course of my free-thinking X days. Every six months or so, I’d take an X day and dedicate it to thinking about the company, investors, business trends, financials, people, and so on, jotting down my thoughts. Then I’d go back and review the notes I’d made on a previous X day. Did my new ideas on that day get implemented? If so, what had happened? Had others slipped through the cracks? If so, were they still valid and worth pursuing? As for the questions I’d posed myself, how would I answer them? Had any new evidence emerged in the interim? The process of working through my blue notebook—and my experience in general on X days—allowed me to break free of my daily context and look at our businesses from something approximating an outside perspective. On numerous occasions, ideas I’d written in my blue notebook led to new business initiatives that made a difference to our businesses. Most notably, our major process improvement initiatives, Honeywell Operating System and Functional Transformation (which I’ll discuss at length in chapter 4), came out of questions I posed during a blue notebook session.

SEEK OUT INCONVENIENT TRUTHS

It’s also important, especially as you rise in seniority, to make sure you’re not just always thinking, but are constantly questioning your own decisions. In public, you have to convey confidence in the moves you’ve made because teams and organizations don’t handle uncertainty very well. But that doesn’t

BANISH INTELLECTUAL LAZINESS

mean you can't question your decisions in private. It's vital to do that. It's also critical to avoid falling prey to your own confirmation bias. We all tend to pay more attention to evidence that supports what we already think and discount data that conflicts with it. The remedy is to systematically seek out evidence that negates your hypotheses or beliefs. Throughout my time at Honeywell, I would push my own thinking further by listening hard to people with opinions contrary to mine or who were bringing "inconvenient" data to a conversation. When I visited our facilities around the world, I would ask people open-ended questions about our operations, honing in on any evidence that conflicted with my presumptions. I would also ask trusted friends and colleagues what they thought about my decisions, knowing that if they saw flaws in my thinking, they wouldn't hesitate to let me know.

I wish I could say I was perfect at questioning my own beliefs, but I wasn't. One of my greatest regrets from my time at Honeywell concerns how we implemented Six Sigma, a well-known quality improvement methodology.⁵ While we invested a great deal in the implementation, as I'll describe in a later chapter, it didn't work as well as it should have. From what I could tell at the time, the program was working fine. However, the signs of failure were there—I just didn't pay much attention to them. If I had been more disciplined in my thinking, I might have prodded myself to proactively run various analyses for the express purpose of testing my beliefs. For instance, I might have compared our quality levels for new products at various facilities with what those levels had been ten years earlier or compared quality forecasted at the design stage with what actually happened. But I didn't subject my ideas to this kind of scrutiny, and as a result, this initiative underperformed for years. Never rest on your laurels. Always challenge yourself, asking, "What if my hypotheses, assumptions, beliefs, or decisions are wrong?" If you really are right, you'll feel even more confident about it. And if you're wrong, you'll get the prodding you need to push your thinking—and your business—in a new direction.

If you set an example of rigor in your own thinking, you'll see a trickle-down effect, first among your direct reports and then among employees at lower levels. Because I demanded a lot of the teams that reported to me,

WINNING NOW, WINNING LATER

those leaders became used to thinking harder and preparing more for meetings. “We knew we needed to do the work at a certain level of rigor,” said Kate Adams, currently general counsel at Apple and formerly our general counsel, “because it was going to be subjected to a potentially very searching set of questions about its validity.”⁶ Sometimes people need a bit of prodding in order to think more broadly or deeply. At one point we hired a new tax leader who gave a presentation saying there wasn’t much we could do to address a particular tax issue we faced. My response: “I could have paid someone a lot less to give me that answer.” He got the message, challenged himself to offer more probing analyses, and became a star performer.

MIND YOUR MEETINGS

You can take additional steps to get your people thinking harder and to shift the level of intellectual discourse among teams. Pay more attention to how you run meetings. Do you tend to dominate the conversation and dictate answers to your team? If so, you’re reducing the amount or quality of thinking that is taking place. The quality of your decision-making will decline, and you’ll miss a valuable opportunity to enhance your team’s critical thinking capacity. The same holds true if you reveal your own opinions on the issues before you too early: team members will come forward with ideas they think you’ll like and will fail to share opinions they perceive as at odds with your own. As I like to say, it’s important to be right at the end of a meeting, not at the beginning.⁷ If you embrace that mind-set, you’ll do a lot less talking in meetings, and focus instead on getting others to report facts and air their opinions. That of course means controlling your own ego. If you struggle in this area, remember: as a leader you get measured on the quality of your decisions and the results they produce, not on whether an idea was originally yours.⁸

Controlling Your Ego: A Lesson from My Dad

My dad was a strong, tough guy—he had served in the US Navy in World War II, had seen a lot of action, and had been wounded. When I was a kid, I spent a lot of time working at the service station he ran. One day business was unusually slow, and we sat together on the curb waiting for something to happen. Sure enough, a car came screaming in. My dad went over and offered up his usual cheery greeting. The customer got out of the car, and for the next five minutes proceeded to berate my father for something he had done. I watched, incredulous and convinced my father would sock the man in the face. Dad was not the kind of guy to be pushed around. Instead, he became extremely apologetic, saying over and over again, “I’m sorry, I’ll make it right.” The customer drove off in a huff, and Dad came back to the curb. We sat there as he stared off into space—I sure wasn’t going to say anything. Dejectedly, he said, “Dave, sometimes in life and in business, you have to put your pride in your back pocket.”

That moment has always stuck with me. To be effective as leaders, we all have to put our egos to one side at times, no matter how tough or strong we might be.

At Honeywell, I would try to lead teams through an issue by posing a series of questions, seeking purposely to encourage a diversity of opinions (as the saying goes, if two people always agree, only one is thinking). When people made statements that ran counter to what I was thinking, I pushed them to develop those arguments to the fullest. When they articulated a view that conformed to my thinking, I held my tongue and didn’t rush to agree with them. I let the conversation run its course, making sure to really listen. Too often people tend to think about what they’ll say next when someone else is speaking. I developed a practice of listening all the way through and waiting three seconds to respond—it’s amazing how that small change allows you to really hear what someone is saying . . . or not saying. I also

registered the body language and facial expressions of others around the table, seeking valuable clues on whose opinion to solicit next.

As conversations unfolded, I did my best to draw out everyone present, including introverts who might have been struggling to participate. In so doing I tried to remain mindful of the specific situation I was confronting as a leader, and tailored my questions or comments accordingly. Many leaders tend to evoke the same persona in every meeting, but that's a mistake. In one meeting you might need to come across as angry, in another pensive, in another friendly. It depends on what you're trying to accomplish. Also, if you do get angry, it's important not to let that frustration carry into the next meeting, as some leaders do, since the team there had nothing to do with the problem that upset you.

Once all the ideas were on the table, I went around and asked each participant what decision they would make if they were me. To avoid junior employees from echoing what their bosses said, I started with the most junior people and continued until I'd heard from the senior-most person. Then, and only then, did I share the decision to which I'd come. I'd explain my thinking in some detail. That way people would understand my thought process and would be better able to apply it to other decisions they might face.

To maintain the quality of our conversations, I made it clear we rewarded results, not effort. Too often individuals and teams want credit for working a hundred hours a week, irrespective of whether they actually accomplished anything. They confuse activity or effort with results, in the process distracting others from focusing on results and the actions required to achieve them. When people in my meetings tried to get credit for effort, I would always say something along the lines of, "That's interesting but irrelevant. If there is no result, there is no story." That might sound harsh, but it's how the world works. I needed our people to understand that reality if we were to make quality decisions and execute well on them.

I also required people to back up their arguments with data to the extent possible. In one memorable meeting, members of our HR Benefits team kept arguing against a proposed change, prefacing their opinions with the words "I feel." I ended the meeting by saying that if this decision came down to

BANISH INTELLECTUAL LAZINESS

feelings, mine would win and we'd go with the proposed change. Not only did they bring supporting data to the next meeting (which, by the way, supported my feelings), but the leader of the group, Brian Marcotte, provided me with a CD containing ten songs about feelings. The message about data's importance reverberated throughout the HR organization, a welcome development in a function that often neglected it.

A final way I tightened up meetings was to discourage people from coming to my office afterward to tell me what they "couldn't say in the meeting" on account of who was in the room. What kind of leader would I be if I suddenly changed my opinion based on statements from the last person with whom I spoke? When people did come to me after meetings, I explained that because they lacked the guts to speak up, we had just wasted an hour of everyone's time and would now have to reconvene so that everyone could hear this new input. I only had to do that a couple of times before this baloney stopped.

Beyond the standard meetings I would hold, I sometimes found it necessary to lead teams through special exercises to spur their thinking around particular subjects. Even the best teams get stuck intellectually, and as CEO, I took it upon myself to perform some shock treatment and force a productive conversation. On one occasion I had asked the purchasing team in our Aerospace unit to provide me with a long list of ideas we could adopt over time to cut costs. Months passed, and after repeated requests on my part, they were "still working on it." Having had enough, I ordered team members to cancel all of their meetings for the rest of the week. The next morning they were going to go into their conference room at 8:00 A.M. and stay there all day until they had analyzed \$1.5 billion in current costs and came up with ideas for aggressively saving money in these areas. If they hadn't generated these ideas by 5:00 P.M., they'd come in the next day to continue thinking on it. It wound up taking them two days, but they came up with the ideas. They just needed a little friendly encouragement from me.

When teams were struggling to envision a potentially different future, I would use a different technique, what I refer to as my "White Sheet of Paper" exercise. The name says it all: I asked teams to take a step back and

WINNING NOW, WINNING LATER

reimagine their businesses from scratch. Often when teams have trouble creatively it's because their thinking is overly constricted by reality as they know it and they can only think of ideas that derive from the existing reality. To have a more productive discussion, they must become reanchored to a different position. I'd ask them to take a day and pretend they could build their business, process, or product from scratch. What would it look like? How would they design it? Usually suspending reality broke the logjam and allowed people to think of a future that was very different from the present.

In one instance, one of our union factories was struggling to redesign their inefficient work rules, all forty-three pages worth. Using the White Sheet of Paper exercise, they were able to pare their work rules down to only three pages, redesigning the work environment to be far more flexible and efficient. Once teams specify both their present position and desired destination, it becomes much easier to lay out the logical steps, the resources the team will need, and a realistic timeline for getting there.

INSTILL AN INTELLECTUAL MIND-SET

In organizations beset by short-termism, leaders often fail to invest sufficiently in research and development, process initiatives, and other growth programs. Spending there detracts from the quarterly numbers, and the returns don't show up until many quarters, or even years, later. When I arrived at Honeywell, our businesses had been shorting research and development spending and other potential growth initiatives for years. We needed to pump up that spending, but many leaders weren't certain how we could do that while still delivering the short-term results we needed.

As I'll describe in chapter 7, it turned out that we *could* deliver short-term results and plant seeds more productively for the future. In our aerospace business, for instance, we had traditionally taken a mindless approach to research and development, developing new products for as many new aircraft models as we could, with little analysis of how lucrative these platforms would wind up being. Some of these investments paid off; some didn't. Now,

BANISH INTELLECTUAL LAZINESS

for the first time, we began performing a marketing segmentation analysis, ranking potential R&D programs for their market potential. We focused our spending accordingly, investing only in products for the big platforms that were most likely to pay off for us. That represented a cost savings, so we took those extra dollars, as well as some extra income generated from better-than-expected sales, and directed them toward what we called “short-cycle” product introductions—smaller investments that would result not in a new product per se but in incremental enhancements to existing products and services that would generate more sales now.

Overall, we took the same research and development budget and allocated it more efficiently, in a way that would deliver both short-and long-term results. The big new product development projects would take years to show a return, but the short-cycle product introductions (along with salespeople to support them) would deliver returns more quickly. The strategy worked. Within a couple of years, short-cycle product development began generating revenue, and today it is a highly profitable, billion-dollar business. Over time, our long-term investments also delivered big for us. We won 75 percent of the new programs we went after, instead of just half of them, as we had previously.

The quality of thought in a team or organization matters. If you want a business that performs both today *and* tomorrow, you need to take apart your business and put it back together again so that it works more efficiently and effectively. That means instilling an intellectual mind-set, spurring your people to think harder about every business decision they face. Set the standard for intellectual engagement. Demand that your people pursue two seemingly conflicting things at the same time. Make it your mission to understand the nuances of your businesses so that you can shape and guide your teams’ intellectual inquiry. Allocate your time thoughtfully; don’t become a victim of your calendar. Carve out time to read, research, and *think*. Turn your meetings into vigorous, instructive debates. As you’ll find, performing today *and* tomorrow is hard, but it’s not impossible. You just need to put your mind to it. You need the right *mind-set*.

QUESTIONS TO ASK YOURSELF

1. What level of intellectual discourse prevails in your team or organization? Be honest! Do you have the discipline required to pursue short-and long-term goals simultaneously?
2. How much time do you *really* spend thinking? Do you organize your calendar to ensure that you have blocked out enough time, or are you a victim of your calendar?
3. Are you implementing the three aspects of leadership to the fullest, or do you spend a disproportionate amount of your time focusing on motivating or inspiring others, which should comprise just 5 percent of the job?
4. Do you engage intellectually during presentations, or are you taking in the proceedings as you would a Broadway show? Are you training your people to think critically and push hard to pursue conflicting goals?
5. Are you using meetings as opportunities to debate pressing issues in a rigorous way? Do you just bark an order, or do you take the time to run people through a series of questions to help structure their thinking? Do you push others to articulate their ideas and the logic behind them and reserve your opinions until the end?
6. Do you strive to understand the drawbacks of a proposed decision, asking, “What could go wrong?” Do you solicit input from every participant, even if it conflicts with your beliefs or the team’s consensus? In deciding how extensively to debate an issue, do you differentiate between decisions that might have minimal consequences (thus potentially requiring less debate) and those that might produce extreme consequences (thus requiring more debate)?
7. Do you challenge yourself and others to think about execution, or are you content being a strategist? Are you delegating, or abdicating? Do you get out in the field enough to understand what’s happening in operations, with your customers, and with other aspects of your business?

BANISH INTELLECTUAL LAZINESS

8. Can you spot opportunities to reanchor your people using the White Sheet of Paper exercise? Where might you profitably accelerate progress by “locking people in the room” and requiring that they produce a solution?
9. Are you as alert as you should be to evidence that conflicts with your own ideas or beliefs? What initiatives aren’t working as well as you might think? Get out there and find out!
10. Are your metrics real, or are people massaging them in ways that yield a distorted picture?
11. Do you tend to listen to the last person with whom you’ve spoken, after they didn’t take the opportunity to speak up during a meeting?

Plan for Today *and* Tomorrow

If there's anything we expect a public company CEO to know, it's information about the organization's performance. And yet, for months after I became Honeywell's CEO in February 2002, I had no idea how we were doing. This might be hard to believe, but as I noted in the introduction, the board had restricted my access to the numbers until I formally became chairman four and a half months later. They wanted me to "learn the business," they said, and not "worry about our performance." The outgoing chairman, my predecessor as CEO, would monitor whether we were meeting our financial goals.

As I would soon learn, our company's performance was indeed troubling. Upon taking over as chairman on July 1, I asked the finance team for an updated estimate of sales and earnings per share (EPS) for the year (we had previously forecasted \$2.36 EPS), informing them that I intended to take our numbers down to something we could feel absolutely confident about achieving. (Given Wall Street's negative views of me, I felt it was really important that I made my first commitments.) During the third week of July, our corporate finance team informed me that our results were rolling up to earnings of \$2.27 to \$2.32 per share. I chose to take guidance to an even lower number: \$2.25 per share. The finance guys were irate, saying I would disappoint investors and destroy our stock price. But I wanted wiggle room in case we performed worse than

expected. It turned out that these two extra cents per share weren't nearly enough. In mid-August, finance sheepishly advised me that our actual earnings for the year would be—get ready for this—only \$2.05 per share. And that was with over half the year already booked. We basically had projected earnings for the second half to come in at \$1.36 per share; now they would only be \$1.05.

What!?

Despite my reputation for colorful language, I promised myself I wouldn't put cuss words in this book, or at least not too many, but you can imagine my reaction. How could our second-half performance decline by over 20 percent in just a few weeks? The finance team blamed me, saying I had “let our businesses off the hook” and wasn't demanding that they perform. That made zero sense. No action of mine could have possibly affected our sales or costs by 20 percent in just three weeks.

I needed answers, so I called the leaders of our four business divisions at the time: Aerospace, Automation and Control Solutions, Specialty Materials, and Transportation Systems. “What the hell was going on?” I asked. Their response: “Well, the financial goals we've been trying to meet were never realistic to begin with.” Apparently my predecessor and our finance team had generated these targets by some unknown process. The business leaders had complained that the goals were excessive, but finance had brushed off their concerns and demanded they formally adopt these numbers anyway. “Just get it done,” finance had told them. “Do whatever you need to make the numbers.”

I was angry, but not entirely surprised: I had seen signs of untrammelled short-termism and a compromised strategic planning process a couple weeks earlier while attending my first “make the quarter” meeting. This regular gathering with finance heads had existed under my predecessor and was replicated at lower levels throughout the organization. The purpose of this meeting was for leaders to approve a list of actions the company would have to take, in finance's view, to meet our quarterly goals. Perusing the list set before me, I saw that none of these actions strengthened the company by either increasing sales or reducing costs. Rather, the actions were one-time

PLAN FOR TODAY AND TOMORROW

transactions designed to make Honeywell more profitable on paper. Finance wanted us to sell a business so that we could book a one-time gain. They wanted us to change how we accounted for certain items so as to book more income. They wanted us to approve deals with vendors that were specifically designed to pad our profits that quarter.

Such actions were perfectly legal under prevailing accounting rules, but decidedly unwise. While these transactions had allowed us to meet our short-term commitments, they hurt us in the long term. Every quarter we felt pressure to find additional, potentially destructive solutions not just to make comparable numbers but higher ones, because we needed to show increasing profits. As time passed and our businesses degraded, the pressure ratcheted up, and we'd become stuck in a destructive cycle of our own making.

To overcome an entrenched short-termism, it's not enough to inculcate a mind-set of intellectual inquiry and honesty into the organization. You also must embed this mind-set and a commitment to both short-and long-term goals deep into strategic planning. Unless leaders at every level and in every part of the business know they must take planning seriously as an intellectual exercise, and unless they are oriented toward planting seeds for the future even as they reap today's harvests, they'll give themselves a pass. They'll sign on to unrealistic, long-term goals that make them look good to their superiors, then take ill-advised shortcuts to make short-term numbers. It's up to leaders at every level to define what a proper strategy looks like, and to give the organization the processes, funding, and analytic tools it needs to deliver results. This isn't easy or glamorous work, but as we'll see in this chapter, it must be done if you want your business to perform well years into the future while pleasing investors today.

CLEAR OUT THE UNDERBRUSH

The first step to improving the planning function is to eradicate the quick fixes that keep people stubbornly focused on today at tomorrow's expense.

A couple of weeks after my horrendous “August surprise,” our finance team happened to be convening a hundred of our top finance people from around the world. I attended and used the opportunity to put a stake in the ground. I informed these executives that from then on, we wouldn’t hold any more “make the quarter meetings,” nor would we perform any more transactions designed to deliver one-time gains and an earnings boost. I couldn’t yet identify all of these transactions across our businesses, but I let finance know I wanted all of this aggressive accounting off of our books, effective immediately, and I didn’t care what it cost us in income.

After that meeting, executives began alerting me to specific financial transactions that served primarily to help us make the quarter. Some of these deals, I discovered, were especially widespread. There was distributor loading, in which we offered our product distributors special prices or payment terms during the last week of the quarter so that we could close transactions and book the revenue. The practice pumped up earnings, but at considerable cost. Distributors learned they could get better prices from us if they strategically timed their purchases. Instead of buying from us during the first weeks of a quarter, they piled all of their purchases into the last week, receiving a discount or better payment terms. These large orders disrupted our businesses, because in order to fulfill them we had to inflate our inventories, hoping we had made products the market wanted, and then scramble to ship everything on time. In some businesses, 25 percent of the quarter’s sales occurred in the last week. And because we had to replicate the performance in future quarters to grow earnings, the problem worsened over time.

Another practice that helped us make our short-term numbers was providing so-called “ship sets” to customers. When selling products like aircraft wheels and brakes, we would package free product into the deal as an incentive. We might offer to provide the first hundred ship sets or product units for free, accounting for those ship sets by capitalizing them, spreading out the cost over the next ten or twenty years. The cash would exit our business at the shipment, but we weren’t recording any immediate expense for it. Today’s earnings would look great, while future earnings would suffer.

PLAN FOR TODAY AND TOMORROW

Executives regarded these ship sets as “free money” they could dispense to lure business. To them, it was free, even though the cash was going out the door. A few years later, their successor would have to work harder in order to make their numbers.

Similarly, businesses were capitalizing R&D expenses to bolster their current earnings. Since the brunt of these costs would be felt over years, leaders didn’t scrutinize the spending to ensure they were getting the best possible value from it.

Still another way we boosted short-term profits without regard for our future was to structure contracts so that vendors front-loaded their costs. To obtain our business, vendors would agree to pay us a fee up front. Our businesses would book this payment as income now, looking good on paper, but saddling the business with higher costs years into the future. In many cases, these long-term contracts hurt our businesses—we were locking ourselves in, becoming overly dependent on a single supplier or overpaying for goods. And yet leaders would sign these deals because they helped them make the quarter.

We also sometimes sold off businesses not because doing so would help us develop and sell more products, but because our income statement would see a nice boost that quarter from the gain on the sale. In one instance, our Aerospace division sought to sell our Technology Solutions business, which provided services to government customers. When I examined the business, I found that it was in a decent position relative to some of our other businesses, and that with some investment on our part, we could grow it considerably over the next several years. We backed away from the sale, electing instead to operate and scale the company. Over a decade later, when we thought the business had peaked, we sold it and booked a much larger gain. By offsetting that gain with additional restructuring, we ensured that none of it fell through to income and could put it instead toward improving our long-term outlook.

At that initial meeting of global finance executives, I made myself clear: none of these common transactions were fair game any longer. No more distributor loading. No more capitalized ship sets or R&D. No more one-time

business sales for the sake of booking gains. And while we were at it, no more stretching payments to suppliers beyond our agreed-upon terms at the end of the quarter. No more selling receivables at the end of the quarter just to make cash flow look better.

The outcry from corporate finance was swift: How could I do this? If we implemented all of these transactional reforms to discourage short-termism, our earnings would decline, investors would sell our stock, and its price would tank. But I wasn't backing down. We had to scrub our books and practices so that they reflected the reality of our underlying businesses. We also had to shake our executives out of their blinding fixation on quarterly results. Only then could we make planning decisions that supported long-term growth.

It took us eighteen months to do away with all of the aggressive and unhealthy accounting practices. On a number of occasions, leaders requested permission to complete a transaction that wasn't in our best long-term interests but that would help them make their numbers. We declined every one of these requests, reminding leaders that if we allowed them leeway this time, they would be digging a hole for themselves, and feel even greater pressure in the future to pad the numbers. These were tough conversations—some business leaders and members of our finance team couldn't stomach our rejection of short-termism. Ultimately, most came around, and those who didn't were ushered out of the company. In 2003, we hired Dave Anderson from ITT as our new CFO. He strongly reinforced our message, making it clear he wouldn't tolerate any end-of-quarter massaging of the numbers.

When communicating with investors, I acknowledged that our performance would lag over the next year or two as we straightened out our business, but asserted that we'd rebound after that. Some investors believed in us during the early 2000s, while others shunned our stock, depressing its price by about 25 percent. That hurt, but we had to stand up for what we believed was best for the company while delivering at least *some* short-term results so that our stock wouldn't go through the floor. Once we were running our businesses strategically rather than just pretending we were, our performance would track upward and shareholders would feel more bullish

PLAN FOR TODAY AND TOMORROW

about our company. As we'll see elsewhere in this book, pursuing both short- and long-term performance requires a period of up-front investment, during which performance might lag for a little while. As a leader, you have to suck it up and make sure your investments pay off.

NO MORE LAME PRESENTATIONS

Given what I've revealed about short-termism at Honeywell, you might wonder if we had a formal strategic planning process in place. We certainly did. Each July our businesses made presentations to the CEO, with similar presentations taking place down through the ranks. These presentations were, in a word, bullshit. Leaders had no clue how they would run their businesses over the next five years, what big initiatives they would have to push to make their goals, or what changes in their industry they should anticipate, or better, lead. Rather than choosing goals thoughtfully, they picked ambitious targets they thought would please their bosses, without regard for whether the business could realistically achieve them. They might have factored in the benefit of downsizing, the introduction of new products or services, process improvement, or other cost-savings initiatives, but then didn't include as an expense the funds to bankroll these initiatives because it would depress the outlook. To cover themselves, they threw around lofty language and piled on hundreds of pages of charts and tables, hoping to look smart. Without much critical analysis, leaders gave their blessings, leaving the businesses to go execute whatever they wanted without follow-up or accountability. "Strategy," such as it was, had no relevance. Operational considerations and making the quarter became daily concerns, with strategy fading to the background.

Former Pittway president and longtime Honeywell executive Roger Fradin remembered that many business leaders failed to take planning seriously because they lacked basic knowledge about their market, customers, and competition. "General managers didn't think their job actually was to spend time in the market with customers and salespeople," he said in an

interview. “They also were not in their jobs for very long,” as it had become the norm to rotate general managers to new jobs every two years or so. In this context, “the plans were viewed as, ‘I got a day in the front of the CEO of the company. I’m going to tell a story that they’re going to find attractive. Then I’ll get back to delivering the same old lousy numbers I was planning to deliver. Or maybe I’ll come up with some ideas for a one-time special.’” When the day of reckoning arrived, leaders felt confident they wouldn’t be around to take responsibility.¹ “There was no integrity to our planning process back then,” Fradin said. “It was total BS.”

One of my top priorities as CEO was to eradicate the BS and reinvent planning. Every year, starting in 2003, I required teams presenting to me to write a three-to-four-page executive summary that highlighted the basic plan. That document would allow us to cut through the pages of obfuscating charts and bullet points. I scrutinized every word and phrase in these summaries and other key parts of these plans. As Fradin recalled, the plan for his business, which accounted for roughly \$15 billion in revenue, was just under a hundred pages long. Even so, when he presented it to me, I spent our entire meeting analyzing the opening charts. The message was clear: “If you say something, back it up with facts. If you don’t know, don’t bullshit. Just say you don’t know.”

When leaders tried to pretend they knew more than they did, I called them on it. A team would regale me with long lists of “competitive strengths”—an obvious red flag. A strong business is lucky to enjoy a couple of key advantages over its peers. These lists were just a bunch of words strung together. “Our competitive strength is our people,” one executive told me. Oh really. Yes, having good people is a competitive advantage. But when we looked, for example, at our business supplying fluorines to customers, did our superior talent pool comprise our primary advantage, or was it the patents we held on certain fluorine molecules? Did we have data showing that our people were better than our competitors? Confronted with questions like these, leaders often admitted that their supposed competitive strengths were traits their competitors also possessed, leaving us without a clear advantage in customers’ eyes.

PLAN FOR TODAY AND TOMORROW

As I probed deeper into the realities of our businesses, I startled leaders at times by advocating radical change. In July 2004, the leader of our \$3 billion chemicals business (our Performance Materials and Technologies business unit) argued that the organization couldn't possibly grow any further or become more profitable, as it was already placing in the top 10 percent of its peers. I asked how big the chemical industry was. The answer: \$800 billion. Meanwhile, their business accounted for only \$3 billion of that. Couldn't they find even a small piece of that \$797 billion to claim for themselves? Of course they could.

In another instance, I asked leaders of our Specialty Materials business unit to create a chart that ranked each of the businesses they ran according to their profitability. Investors at the time were pressing us to sell this entire business. I disagreed. While Specialty Materials as a whole was underperforming, some of its component businesses were delivering well for us. Why should we sell them off, giving another company's investors the payoff for work we could accomplish ourselves? When I saw the chart our leaders had prepared, I drew a line through the middle of the page. I told the leaders: "All of these businesses to the right of the line, I want you to dispose of. All the ones to the left of the line, I want you to keep and build." The executive overseeing Specialty Materials protested, claiming they had been brought in to run a \$3.5 billion business and double its size, and my cuts would shrink the business down to \$2 billion. "I'm sorry about what you were told," I said, "but we're never going to grow with this existing portfolio. These business to the right of the line—they don't have any real competitive advantages. So get rid of them." Once this executive had a solid, albeit smaller portfolio of businesses to run, we made real headway generating growth.

As more leaders began analyzing proposed strategic plans critically, our plans became much sharper, more realistic, and more successful. Our sensors business (part of our Automation and Control Solutions business unit) manufactured a range of products within two broad categories that generated roughly equal amounts of revenue: electromechanical sensors that employed both electronic circuits as well as switches or other mechanical parts, and sensors that used only electronic circuits. The latter was

WINNING NOW, WINNING LATER

cutting-edge technology that the business leaders felt would take over the market. During the early 2000s, we were investing almost all of the business's R&D on developing electronic sensors, even though that category only accounted for half of the business unit's sales and none of its income. Meanwhile, we were investing almost nothing to refine and update our electromechanical sensors, sales of which were also growing and contributing half the revenue and all of the income. The strategy seemed to make sense—preparing for the future and to avoid being disrupted. But something didn't sit right to me, so we asked our business leaders several questions. How long had it been since we began forecasting the decline of electromechanical sensors? Was the electromechanical industry really in decline, or was the outlook more positive than we had thought? Finally, what would it take to make money in electronic sensors?

Leaders responded that we'd been forecasting the demise of electromechanical sensors for a long time, that they didn't know if that industry segment was still growing, and that they'd have to take a look to figure out what we'd need to do to make money in electronic sensors. Their analyses, presented during our next scheduled Growth Day, turned up two interesting findings. First, our legacy electromechanical sensors were hardly a dying business, as our leaders had presumed. Demand for these products continued to grow about 3 to 4 percent per year. And second, our R&D spending on electronic sensors was unfocused. We were throwing money at an array of potential end markets rather than thinking hard about which ones would most likely create value for us. We decided to reallocate a good chunk of R&D spending to creating innovative electromechanical devices, and to limit our spending on electronic sensors to just a few end markets, like the medical industry, where we could claim a true competitive advantage. Years later, this revised strategy helped make our sensors business extremely profitable, taking us from just a 5 percent margin to over 20 percent.

MAKE STRATEGY PART OF LEADERS' DAILY WORK

Beyond our uncompromising stance toward presentations, we took steps to make our planning process itself more regular and substantive. By setting aside growth and operations days for myself (see chapter 1), I created time in my schedule as well as in that of my staff to hold follow-up consultations with our business leaders. These were one-to-two-hour-long meetings on a variety of topics, held every six weeks, and organized around presentations that were short (no more than ten pages long) and that contained up-to-date data on the business's financial and operational performance. Our follow-up consultations forced leaders to gather and analyze data regularly throughout the year, since they now bore responsibility for reporting it to me. Strategy would no longer be a one-time annual event that everyone quickly forgot.

To further intensify this drumbeat of information, I asked the businesses to provide me with monthly reports on the Five Initiatives (which I'll cover in more detail in chapter 5) that defined our overall corporate strategy: growth, productivity, cash, people, and improvement initiatives such as Honeywell Operating System (what we called "enablers"). I wanted leaders at all levels in our businesses thinking about their strategies in some fashion almost every week.

As Roger Fradin recalled, such focus helped his organization because it prompted everyone to pay more attention to their markets. "We were all over what was going on with our competitors every day in the market," he said. "We were all over what was going on with our customers. I'm exaggerating by saying every day. But that was the culture. That was what the conversation was about."

By checking in more frequently, we could also focus better on challenging, longer-term goals. Take our fluorines business. During the 1990s, we had invented a fluorine molecule called hydrofluorocarbon (HFC) to replace the hydrochlorofluorocarbons (HCFC) and chlorofluorocarbons (CFCs) that had been degrading the ozone layer. Used in industrial contexts as refrigerants, HFCs served as an excellent substitute because they

didn't deplete the ozone layer at all. Unfortunately, they were 1,300 times more potent than carbon dioxide in their contribution to global warming. To stay ahead in the industry, we needed to create and patent yet another replacement agent that wouldn't exacerbate climate change or deplete the ozone layer. That was a massive technical undertaking, requiring hundreds of millions of dollars in research and development spent over a number of years.

To assure that business leaders didn't cut R&D funding over that time and that they continued to assign their best people to the effort, we held regular strategic update meetings in which we discussed the team's efforts to date and any support the team needed. That oversight, along with an absolutely superb technology effort, made all the difference, allowing us to make slow but steady progress. After five years of dedicated effort, we invented a breakthrough molecule called a hydrofluoroolefin (HFO) that, according to independent studies, had a global warming effect 20 percent *lower* than carbon dioxide. As a result of that invention and the long-term contracts we were able to secure, our fluorines business today is thriving and highly profitable, with sales of over \$1 billion.

The monthly reporting updates on the Five Initiatives we required of various businesses also helped, again because they allowed leaders to stay engaged and hold teams accountable. Our government services business provided a range of technology-based services to law enforcement, the military, and other government agencies to help them monitor data in the field, communicate securely, track conditions and local facilities, and so on. Around 2005, this business had adopted a strategic goal of seeking out bigger contracts (over \$100 million) with government agencies. Since the business wanted to expand in size, it seemed to make sense to pursue bigger contracts, and leaders were convinced we could execute on them.

Month after month, I'd read updates sent along by leaders of this business. About eighteen months into the new strategy, it struck me that I hadn't seen us land any big new contracts lately, so I asked our leaders to analyze results over the period. It turned out that we had bid on eleven contracts but had landed only one, and on this one we were already the incumbent.

PLAN FOR TODAY AND TOMORROW

That realization prompted us to reassess our strategy. We discovered that our customers didn't believe we could execute on the bigger contracts, and that in any case, they found it overly burdensome to transfer their business from their existing partner to us. We changed our strategy, pursuing smaller contracts in hopes of winning a higher percentage of them. Before long, our business started growing again.

As I like to say, modifying a famous statement of Thomas Edison's, "Business is 1 percent strategy and 99 percent execution." Take the time you need up front to get the strategy right so that you can then get the execution right. In particular, when leaders present executive summaries for their strategies, have them highlight what has changed in comparison with previous strategies. Organizations that shift their strategy every couple years become directionless and ineffectual. By taking extra time to ensure that your strategy makes sense and spending just a bit of time on a daily basis validating it, your organization can spend 99 percent of its time executing instead of flailing.

CONNECT OPERATIONS WITH LONG-TERM GOALS

In many companies, operations and strategy exist on different planes. Planning presentations take place in July, while operational budgets are formulated six months later, at year's end. Often, it turns out, businesses have less money than anticipated to spend because in the intervening six months costs ran higher and/or some sales didn't materialize. The business must then make short-term adjustments that can wreak havoc on long-term goals. As I recounted in the introduction, GE's appliance business sometimes laid off thousands of workers on an emergency basis in November of a given year, all because profit estimates for the following year came in lower than anticipated. We'd scramble to get corporate to allocate money for us to perform these layoffs and restructure the business, a disruption we might have avoided.

At Honeywell, we asked business leaders to think not just about the

next five years when they presented strategic plans, as they traditionally did, but also to craft the following fiscal year's plan. We began consulting in depth with business leaders about the next fiscal year's strategy months before our July presentations. I did this casually, hopping on the phone with business leaders and sharing my strategic questions about their businesses, asking for their thoughts, and giving them my initial sense of what they should adopt as the following year's financial targets. Prompted to think about their goals for the next year earlier, leaders could mobilize others in their businesses to consider operational steps required during the current fiscal year, not just over the next five years, to deliver on the strategy—the specific initiatives they would have to fund, the workforce they would need (including whether they would need people with specific technical skills), the marketplace trends that would impact their business, and so on.

When July arrived, their operational plans for the following fiscal year were much more substantive, and their projected strategic goals and five-year financial performance forecast more realistic. This made the operational budget in November easier to adopt and allowed us to avoid last-minute, “emergency” situations related to that budget. Additionally, during the strategic plan presentation, leaders would show a comparison of their several previous five-year sales and earnings forecasts with their business's actual performance, gauging whether they had set and executed against the proper long-range strategic goals.

Business leaders initially disliked my focus on the next fiscal year. How could they possibly mire themselves in those details when they were still working hard to manage operations during the current fiscal year? I told them I assumed they would make their current year's numbers, because they had thought long and hard about them before committing to them. That usually stopped them cold. Then I got them to see that thinking about next year's operations now would help them succeed during the following year and on into the future. After all, the first priorities to lapse when a business falls into a crisis are long-term investments. When November arrived, and our leaders had to lock in their budgets, I wanted them to be able to make their short-term numbers while still planting seeds for the future.

PLAN FOR TODAY AND TOMORROW

Ongoing operational planning guided by and infused with strategic thinking would prevent us from falling into a dynamic whereby “emergency” decision-making now made it harder in the future to achieve quarterly goals, leading to still more emergency decision-making and even fewer investments. By thinking ahead, we could pursue both long-and short-term goals simultaneously.

It took years for leaders throughout Honeywell to run their businesses at all times with long-and short-term perspectives in mind. I reinforced this approach constantly—at town halls, strategic planning meetings, annual operating meetings, training sessions, and other events. As I told people, succeeding in business often required them to do two seemingly conflicting things at the same time. We needed them to keep inventories low so we could save cash, but we also wanted to deliver for our customers. We needed to empower the people who worked for us, while also maintaining good controls. And in both our long-term planning and operational budgeting, we needed to obtain results today while laying the groundwork for our future success. Little by little, by dint of sheer repetition, the message sank in. I would hear people talking about “doing two seemingly conflicting things at the same time” and feel like cheering. As we’ll see repeatedly throughout this book, driving change deeply into the organization requires consistency and relentless effort on leaders’ part. When it came to managing for today *and* tomorrow, I wasn’t giving in.

RESTRUCTURE LITTLE BY LITTLE

We’ve examined how to restructure the planning process, but what about the actual substance of strategic plans? The specifics will vary for businesses depending on their industry, size, market, and so on, yet one planning principle applies universally to businesses, helping them achieve strong or at least acceptable results now while cultivating future growth. I call this principle “perpetual restructuring.” Traditionally, companies restructure their businesses periodically to cut costs, primarily through mass layoffs and closures.

WINNING NOW, WINNING LATER

Perpetual restructuring is a more gradual, moderate, and frankly humbler approach. Instead of slashing costs dramatically all at once, keep your fixed costs steady while growing sales year over year. Operate more efficiently, doing just a bit more each year with roughly the same resources you used the previous year. To achieve those efficiency gains, deploy a variety of smaller restructuring programs that support ongoing process-improvement initiatives. Push to get a bit better—more efficient, more effective, more innovative—each and every year. Over time, as your business grows, deliver part of the added profits to investors, but set aside a portion to fund additional investments in R&D, geographic expansion, process improvement, sales coverage, and strategic portfolio management (acquisitions, mergers, and divestitures). When you realize one-time gains from the sale of a business or some other asset, invest those as well instead of using them to artificially inflate short-term profits.

The Magic of Holding Fixed Costs Constant While Growing Sales

In most businesses, variable margins run somewhere between 30 to 80 percent. For every dollar of sales, between 30 and 80 cents goes to income, provided you hold fixed costs constant. If you allow fixed costs to increase, that margin gets chewed up. The chart below illustrates the impact. Just by holding fixed costs constant, we get 10 percent earnings growth instead of zero:

PLAN FOR TODAY AND TOMORROW

FIXED COSTS CONSTANT

	Year 1	Year 2
Sales	100	103
Variable Margin @40%	40	41
Fixed Costs	30	30
Operating Margin	10	11
		10% growth

FIXED COSTS GROW WITH SALES

	Year 1	Year 2
Sales	100	103
Variable Margin @40%	40	41
Fixed Costs	30	31
Operating Margin	10	10
		0% growth

In most businesses, labor comprises 70 to 80 percent of fixed costs. Every year wage and benefit increases alone could yield a 3-percent cost increase, assuming the headcount remains constant. That's why process improvement initiatives are so important, and why you should always put good reporting systems in place to track revenues and labor costs. Leaders and organizations always push for more people. They often don't examine what they could stop doing, do less of, or do better to make their existing staff more productive. Census constraints are thus vital to keeping fixed costs constant.

Perpetual restructuring won't allow you to maximize quarterly results since you'll always be investing some percentage of profits back into the business. But as time passes and those investments come to fruition, you'll see additional and ever-increasing performance gains, which in turn enable additional investments. Growth becomes more robust, pleasing investors and allowing you to outperform competitors who haven't been steadily investing. Once the long-term investment flywheel is turning fast due to

your increasing annual investments, you can stop increasing the rate of investment. At that point, investors' returns increase significantly because you can devote a greater portion of the income increases to them.

Most businesses don't move from good to great—or in Honeywell's case, from failing to great—all at once. They do it slowly, one year and one quarter at a time, in a disciplined fashion. Take our sensors business. By 2005, a series of acquisitions had left the business with thirty-seven relatively small-scale (about five hundred employees each) plants around the world. Coordinating that many plants was unproductive, and we couldn't deliver well for customers. Each plant also represented a considerable amount of fixed costs for us, including maintenance of the buildings, employee salaries, and the cost of running assembly lines.

I asked business leaders to imagine what their ideal production footprint would look like. After running through the White Sheet of Paper exercise described in chapter 1, they realized they could run the business quite well with only twelve plants. If we had taken a less thoughtful approach to planning, we might have decided to close all twenty-five plants all at once, swallowing a sizable restructuring charge in hopes of delivering short-term cost savings. We would have laid off thousands of workers simultaneously, unsettling the invisible processes at work that underpinned our operations (what is often called the “hidden factory”). We also would have temporarily disrupted customer service while transitioning to our new factory footprint.

Applying our perpetual restructuring philosophy, we spread our closure of these twenty-five plants over a decade, laying off just a few employees each year and gradually upgrading our production capacity. Along the way, our leaders improved a number of other areas, including R&D spending, as previously mentioned. All of this effort, managed while still delivering reasonably good quarterly returns, helped transform our sensors' business from good to great.

We applied perpetual restructuring to all of our businesses and saw dramatic improvements in all of them. Traditionally, Honeywell Transportation Systems had manufactured turbochargers for diesel engines, serving customers in the automobile industry. Leaders had resisted manufacturing

PLAN FOR TODAY AND TOMORROW

turbochargers for gasoline engines, feeling our technology afforded no great competitive advantage. In 2007, when a new executive took over the business, we made a move into gasoline turbochargers, reasoning that gasoline engines comprise half of the total market, and would continue to do so for the foreseeable future. But rather than embark on a crash course to develop gasoline turbocharger products, we applied the perpetual restructuring philosophy and invested just a portion of our profits each year to R&D related to gasoline turbochargers. A decade later, we're a major player in both diesel and gasoline turbochargers, claiming about 30 percent of the gasoline turbocharger market and generating an additional billion dollars in revenues. The business has done so well that we recently spun it off to shareholders as an independent public enterprise.

Stories like this have added up to sustained success at the enterprise level. Perpetual restructuring allowed us to boost our self-funded investment in research and development from 3.3 percent of sales in 2003 to 5.5 percent in 2016. We also spent between \$10 and \$40 million each quarter on restructuring (in addition to any one-time gains) to improve our processes. Sell-side analysts initially wondered when this restructuring would end, and they didn't like our answer: never. One of Honeywell's biggest investors understood our approach, and good thing: over time we boosted our operating margins from about 8 percent in 2003 to about 16 percent in 2018, while almost doubling sales. Although Wall Street in 2002 had already thought of us as a "lean" company, we became far more efficient and profitable, all by devising strategies that worked in the short term while giving us the resources we needed to plant seeds for the future. Analysts who had formerly doubted perpetual restructuring became strong believers.

CHANGE HOW YOU PLAN

If your business hasn't planned for both today and tomorrow, start now. Clear out short-termism from your strategic thinking, banishing those easy, end-of-quarter fixes that might save you this quarter but compromise

performance later. Make your planning process more rigorous and keep everyone focused on the strategy even as they go about making daily operational decisions. Avoid those overly ambitious plans and instead adopt a measured approach, balancing short-term profits with investment in future growth. You might believe it's too late to implement a specific long-term plan or strategy, and you might be right. But you probably aren't. As I often told our leaders, "The best time to plant a tree is twenty years ago. The second best time is today."

Honeywell didn't learn all at once how to plan for today *and* tomorrow. In addition to the eighteen months we spent purging unhealthy accounting practices, it took us several more years before leaders internalized this new approach and adopted it as a cultural norm. You can expect a similar period of transition at your business. Ride it out by staying closely involved. When others ask you to authorize decisions whose only purpose seems to be "making the numbers," hold your ground. When others propose massive, one-time improvement projects, ask them to rethink it, breaking these projects into smaller pieces that you can execute more easily. Demand that your teams run their businesses better each year, growing while relying on the same fixed-cost budgets they used the year before, or at least growing costs much less than sales. Your stance won't be popular at first, but as results improve and the path to future growth becomes easier, people will see the wisdom of your approach. Strategic planning will shift from the pointless, burdensome exercise it might be today to your organization's lodestar.

You can plan for today and tomorrow at any level—whether you lead a business unit, a department, or a small team. If you run the payroll department at a company, ask yourself each year how you could handle an increasing volume of work while keeping fixed costs steady. How can you redesign your processes and systems so that you reduce errors, use fewer people, and are generally more effective? Generate some ideas (I'll focus on process improvement in greater depth in chapter 4), and then develop a strategic plan to implement them, as well as an operating budget. Find a way to reduce costs elsewhere within your organization to self-fund at least a portion of your ideas. Bring your ideas to your bosses and sell them,

PLAN FOR TODAY AND TOMORROW

describing how you'll start slow, make sustainable progress, and see sizable performance gains over time.

This approach also works in small organizations and teams. Becoming more effective at planning and delivering both short-and long-term results gets you noticed by your superiors as someone who can think independently and make a difference. If that doesn't happen, and if your bosses persist in holding you to unrealistic goals, then perhaps you should move to an organization that is more honest with itself and committed to high performance. (Before reaching that conclusion, make certain that these goals really are misguided, and that your bosses aren't just pushing you to think more broadly.)

WATCH YOURSELF

As you pursue continuous restructuring, you might feel tempted to depart from the philosophy and allow businesses to boost profits occasionally by booking a juicy one-time gain. Don't do it! Even occasional padding of profits can instill organizational laziness. The next year you'll set unrealistic goals, and people will insist on taking similarly desperate measures to reach them. The craving for fiscal shortcuts is rather like alcoholism: when you stop, you need to do it cold turkey and permanently. If you take another drink, even years later, you risk relapsing. As a leader, adopt a posture of constant vigilance. Don't ever assume that others have fully bought into continuous restructuring and responsible planning. Keep pounding away, pointing out at every opportunity that organizations really can—and must—plan carefully for short-and long-term goals simultaneously.

If you lead a public company, pay special attention to investors. Like executives in your organization, many investors won't get perpetual restructuring at first, and they probably won't see the important steps you're taking internally to reform strategic planning. Resist the urge to meet their earnings expectations to the letter. Alert shareholders and analysts to the growth investments you're making, explain their worth to the business, and give

shareholders and analysts some sense of how long it will take for investments to mature. Quarter by quarter, make your life easier by setting earnings goals conservatively. Adopt goals that run just under what you reasonably think your business can achieve but that are high enough so that investors won't flee. If your business outperforms those goals, great—channel part of those earnings into additional restructuring. If your business runs into unanticipated challenges, you'll have wiggle room and won't feel tempted to resort to the sort of last-minute deals and accounting tricks that used to damage our business.

PLANTING TREES INSTEAD OF CUTTING THEM DOWN

In 2002, after I eradicated our “make the quarter” meetings and banned the last-minute deals our people made to beef up their numbers, I wondered if these measures were changing reality on the ground. Using one of my X days, I paid a surprise visit to a chemical plant of ours in Louisiana to inspect the facility and talk to leaders and employees.

When I arrived, the plant manager greeted me and showed me around the inside of one of the facility's buildings. As we walked, he explained how the plant operated, what it produced, and what difficulties it had been experiencing. After perhaps fifteen minutes, I asked if he had noticed any operational changes since we had eliminated our “make the quarter” meetings. “Definitely,” he told me. “I used to spend hours every week putting together special deals so that we'd make our numbers. I'd waste time figuring out other accounting ideas. I don't have to do that anymore, so I can actually run the plant.”

We cracked open a door and walked outside to tour some of the plant's extensive grounds. Glancing around, I saw great expanses of flat, open land extending to the horizon, all belonging to the plant. “Hey,” I said, turning back to him. “Do you have any examples of things you did to make the numbers? What are you doing differently now that you weren't before?”

PLAN FOR TODAY AND TOMORROW

“Yeah, I can be more specific,” he said. He pointed straight ahead. “See those fields out there?”

I nodded.

“Those all used to be trees—hundreds of acres worth. One time, to make the quarter, I had all those trees cut down and sold for timber. For most of the quarter, I spent my time on that transaction, as opposed to running the plant, because financially it was the biggest deal we had going. When that sale closed, it helped us reach our goals for the quarter. Would you believe, I actually got an award for creativity for coming up with the idea of selling the timber, and they started looking at all the other plants to see if they could do the same thing.”

I shook my head in disbelief. “Wow.”

“Yeah. But thanks to the changes we’ve implemented, I don’t have to spend my time doing that stuff anymore. I can focus on real issues, like getting our customers the product they need in the most efficient way possible.”

Planning for today *and* tomorrow takes work. I spent a sizable chunk of my time as CEO following up with general managers on their strategic plans, analyzing them, and promoting our philosophy of perpetual restructuring. Other leaders did this too. But all that effort paid off. Instead of looking for quick fixes, jerry-rigging our businesses together quarter by quarter, we changed the way work got done and improved how our businesses ran. Instead of cutting down trees, we planted them.

QUESTIONS TO ASK YOURSELF

1. What kind of short-term, “make the quarter” activities do you see in your organization? Are they hurting long-term effectiveness?
2. What can you do to generate funding for long-term initiatives while still generating adequate short-term results? Have you considered ways to hold fixed costs flat, or at least to have them grow at a rate far below that of sales growth?

WINNING NOW, WINNING LATER

3. Is your planning process more of an annual event rather than a rigorous, ongoing examination of your strategy?
4. Is your CFO conservative in his or her outlook? If your CFO is an optimist, you're in trouble!
5. How might you encourage people to reflect upon next year's results at the beginning of this year rather than at the end?
6. Instead of always trying for a "big bang" of growth, have you considered areas where perpetual restructuring might help you?
7. In your day-to-day interactions, do you spark people to think about business basics like doing a great job for customers, generating real sales, cutting costs, and investing wisely for the future?
8. Do certain long-term initiatives never seem to generate short-term results? What can you do to fix them?

PART TWO

**OPTIMIZE THE
ORGANIZATION**

Resolve Serious Threats to the Business

In 2003, about a year after I became CEO, an employee was killed while working at our chemical plant in Baton Rouge, Louisiana. I immediately sent in a team of environmental specialists to determine what had caused this tragedy. Touring the plant's grounds, they found a number of old chemical cylinders lying around. Labels affixed to these cylinders indicated which substances they contained, but nobody knew for sure if the labels were correct. The deceased employee had died because he had opened a one-ton cylinder filled with chemicals and had been overcome by the powerful fumes. As we discovered, the cylinder he had opened had been incorrectly labeled, and he had opened it in violation of our safety protocol.

I wanted to know why the employee hadn't followed protocol. And why were there old, mislabeled cylinders lying around? To get some answers, I flew down to the facility, paying leaders there a surprise visit. When I arrived, the receptionist didn't know who I was—that's how much of a surprise it was. The plant manager gave me a tour of the plant and showed me the spot where the fatal incident had occurred. Afterward, I met with plant leaders in a small conference room and asked them to explain what was going on at the plant. "You have to understand, Dave," one of these leaders said, "this accident could have occurred anywhere.

Chemical plants are dangerous places. We were just unlucky that it happened to us.”

Unlucky. Did he just say that?

I asked additional questions and got more lame answers: “Everyone runs plants like this”; “Failing to follow safety instructions is human nature”; “Accidents like this can happen at any facility at any time, and there’s nothing you can do about it.” After ten or fifteen minutes of this, I had had enough. Raising my voice, I berated the leaders seated next to me. “Do you understand that a man *died* in this facility and that it could have been prevented if we had handled these cylinders out there properly, and if he had followed the protocol he had learned in his trainings? You’ve got an abysmal safety culture here—I mean, *abysmal*. Rather than make excuses for yourselves, you’ve got to get your butts in gear and fix it!”

Subsequent investigation revealed that safety issues comprised an important threat not just at this plant but firm-wide. An untold number of incidents like this were waiting to happen at our facilities around the world. To prevent them, we would have to invest heavily in training and process improvement.

Safety was hardly the only serious issue I inherited as CEO. During the first year of my tenure, I was chagrined to discover that Honeywell’s legal and environmental liabilities were far greater than I realized. I had known we were fighting a significant number of lawsuits related to asbestos, but I hadn’t realized that we faced billions in liabilities, or that we’d need billions more to clean up chemical contamination at our facilities. And then there was our underfunded pension fund to deal with, and the aggressive accounting practices described in the last chapter. Holy cow! These issues loomed darkly over our business—time bombs just waiting to go off. They also bothered me personally. As a child of the 1960s, I didn’t feel comfortable leading an organization that didn’t take its social responsibilities seriously.

A conversation I had with Kate Adams, a new litigation lawyer we hired, offered a fairly stark indication of just how big of a challenge these “legacy” issues posed. About six months after Kate started, I happened to run into

RESOLVE SERIOUS THREATS TO THE BUSINESS

her in the hallway. “So,” I said, “now that you’ve settled into our company, are you having buyer’s remorse?”

Her face brightened. “No, not at all. We have such a tremendous portfolio. It’s so exciting to be here.”

“Wonderful,” I said. “Yes, we do have a great portfolio of businesses here, and it will be exciting to see how we can build on them in the years ahead.”

“Well, that too,” she said. “But I was really talking about the portfolio of lawsuits we have. We get sued for everything! All kinds of stuff, all around the world. It’s really interesting.”

Now, I’m all about enthusiasm on the job, but this is *not* what any CEO wants to hear.

As important as it is to balance the short and long term in strategic planning generally, some historic liabilities are so potentially damaging that you have to take a greater short-term hit than you might like—and sometimes an ongoing hit—in order to mitigate them. Otherwise you won’t be nearly as successful down the road with *either* short- or long-term objectives, and you won’t succeed in setting up a virtuous cycle, in which short-term gains set the stage for longer-term achievements, and vice versa. Overcoming short-termism means finally tackling those legacy issues that have been pushed off onto the next leader’s shoulders for too long. As I told my team again and again, you can’t build a good house unless you have a strong foundation. If your organization or team lacks such a foundation, now is the time to set money and other resources aside and start building.

THE SCOURGE OF SHORT-TERM THINKING, REVISITED

Most companies that have been in business for decades—or in Honeywell’s case, over a century—will have legacy issues of some kind. Laws and social expectations about safety and health change over time, as do our knowledge of the consequences of technologies and production processes. Activity that seemed reasonable and safe decades ago caused harm, for which the law rightly or wrongly holds companies responsible. Although settling these

liabilities can hamper growth, it's by no means necessary for liabilities to pile up to such an extent that they threaten an organization's capacity to compete and grow. That they do at many companies is owed to a common scourge: short-termism.

At Honeywell, previous leaders had exposed us unnecessarily to liability because of their failure at key moments to consider the company's long-term health. In the case of asbestos, we had two big sources of legal exposure: from our Bendix brake business (brake linings we'd manufactured over the years contained asbestos), and from a small business called NARCO we had owned decades earlier that manufactured the special, heat-tolerant bricks used in the construction of industrial smokestacks. We had sold NARCO during the 1980s for about \$60 million, but were still liable for its asbestos problems. That's because our leaders back then, eager to seal the deal, had agreed to a clause in the final agreement that said we would retain liability for future claims in perpetuity. By the early 2000s, our legal liability from this one company amounted to—get ready for it—\$1 billion. If you needed proof that short-termism can have drastic consequences for a business, there you go.

Even more significantly, short-termism had caused these and other liabilities we faced to pile up and worsen over time. Issues like safety concerns, environmental and asbestos liabilities, and our pension shortfall had also been ignored in large part because no one would sacrifice quarterly earnings in order to resolve them. Instead of cleaning up a polluted site or biting the bullet and resolving an asbestos issue, leaders had opted to fight lawsuits in court as far as they possibly could, paying out only when a jury decision or a judge left us no choice. Because the vast majority of these cases weren't getting resolved, we faced the possibility of even greater liabilities in the years to come.

All of our legacy issues—not just environmental and asbestos, but pension and accounting too—hurt our relationship with Wall Street. At every meeting during the first several years of my tenure, I'd try to kick off the proceedings by talking about our businesses and the growth opportunities we saw, but I couldn't because analysts would pound me with questions

RESOLVE SERIOUS THREATS TO THE BUSINESS

about our legacy liabilities. In 2006, JP Morgan downgraded our stock rating specifically because of the uncertainty created by our environmental challenges. As their research report on us noted, “Environmental related costs have been . . . a key drag that continues to mask otherwise favorable end market leverage in core operating units. . . .”¹ Wall Street couldn’t get excited about our businesses when they saw so much potential risk.

Many members of the public didn’t like us very much either. Honeywell should have been seen not merely as an environmentally friendly company but as a world leader in sustainability. After all, the products and services we sold (and still sell) helped the world reduce emissions, generate green energy, defend the country, and protect the ozone layer. Because of our handling of legacy issues, however, our brand image was terrible. At around the time when I became CEO, we were facing several criminal and near-criminal investigations. In 2003, the District Court of New Jersey rendered a decision sharply criticizing our handling of environmental issues and ordered us to conduct a massive cleanup at a site in Jersey City. “I find that Honeywell was less than cooperative and embarked on a dilatory, foot-dragging scheme for 20 years,” the judge wrote.²

In other communities around the country, environmental and asbestos lawsuits yielded vast amounts of bad press for us. A 2003 op-ed in the local Syracuse, New York, newspaper warned of “lakeside toxic tombs” at Honeywell-owned sites, while a 2004 article in the *Arizona Republic* carried the headline “Honeywell Sued on Toxic Fuel.”³ In the latter article, the state’s attorney general was quoted as saying that “Honeywell seemed to think they could tell the regulators anything they wanted with impunity and not be bound by the truth.” Not terribly flattering. And as you can imagine, such stories didn’t win us plaudits from employees either. It’s hard to feel proud about where you work when your employer is constantly being sued and acting like a bad guy in court.

You might wonder whether previous generations of leaders had experienced pangs of conscience about failing to deal with legacy issues like pollution or asbestos. If they did, I didn’t hear about it. As I’ve said, it was inevitable that we would have legacy issues, but from the perspective of

WINNING NOW, WINNING LATER

leaders, it was best to ignore or downplay them, minimizing their short-term financial impact on our businesses. Lawsuits and public outcry were unpleasant byproducts of doing business. Maybe someday these issues would be permanently resolved, but that wasn't our problem. We needed to focus on performing *now*.

If you're running a team or organization with legacy issues, don't think like this. Younger generations of employees and consumers expect transparency from companies, and they have less tolerance than ever for leaders and organizations that shirk their social responsibility. Companies that step up to repair the harm they've caused and prevent new harm from occurring have a much easier time attracting top talent to their doors. It's probably going to be cheaper for your organization to resolve your legacy issues now than it will be a decade from now, when the harm will have mounted even more. But if none of this convinces you to take action, think about your legacy. What kind of leader do you want to be? Do you want to be known as the leader who passed the buck and feigned ignorance? Or do you want to be known as the one who had the courage to do what others wouldn't, even if it bit into short-term results?

RESOLVE LEGACY ISSUES STRATEGICALLY

When I became CEO, I was determined to fix these issues *now*, even if it depressed our earnings in the short term, because as I saw it, our future depended on it, and I didn't want my successor to deal with these time bombs. In 2002, we set aside \$1.5 billion in a reserve fund to settle our thousands of asbestos-related lawsuits. We also boosted the amount of money we set aside each year to handle our many dozens of outstanding environmental issues, raising it from \$80 million a year to \$250 million. Subsequently, we allocated almost \$900 million to properly fund our pension, pouring another \$4.5 billion into it during the Great Recession. We invested in better safety training not just in our Baton Rouge plant but across Honeywell, and we spent two years getting our financials on a much sounder footing.

RESOLVE SERIOUS THREATS TO THE BUSINESS

We couldn't just throw money at legacy problems—short-term performance still mattered. To make the hit on our business as manageable as possible, we invested strategically to resolve environmental issues over time. To enable us to resolve our legacy issues as efficiently and effectively as possible, I built a new team dedicated to the purpose. I had hoped I'd be able to find existing leaders within Honeywell, but it turned out that our people in Health, Safety, and Environmental (HSE), the function that oversaw our efforts in these areas, didn't have the vision or determination. Also, regulators knew and in some cases hated these leaders, a reality that would make it difficult for us to develop more collaborative and productive relationships going forward. We needed leaders whom regulators trusted, but also leaders who could help drive creative and collaborative solutions that could accomplish two seemingly conflicting things at the same time: save us money *and* remedy environmental issues correctly.

During the first few years of my tenure, we rebuilt our HSE function from top to bottom. To oversee our litigation efforts, we brought in Kate Adams, an extraordinarily capable attorney whose father, John Adams, had founded the National Resource Defense Council, one of the nation's most prominent environmental activist groups. Hiring her sent a message to regulators that we wanted a new kind of relationship—with her pedigree, people knew she wouldn't take actions on our behalf that compromised environmental health. Another key leader we hired was Evan Van Hook, a former regulator and environmental attorney who commanded trust on both sides of regulatory issues. These two leaders in turn began replacing the HSE leaders assigned to our main business units, and those executives in turn built out their own teams. Soon, the HSE function throughout our organization was peopled with leaders and managers who were committed to solving problems smartly, not ignoring them, passing the buck, or doing the bare minimum.

As our team coalesced, we began taking a markedly different approach to our environmental litigation. Rather than tying up environmental legislation with painful and expensive legal maneuvers, we began approaching regulators and communities and negotiating with them to come up with

WINNING NOW, WINNING LATER

more creative, long-term solutions. Regulators often seek to obtain the most money they can from environmental polluters, irrespective of whether the particular remediation method under discussion is the best one. When we engaged with affected communities, we wanted to see if we could find solutions that got the job done right, but that did so in innovative, cost-effective ways. We wanted everyone to win—the environment, local communities, *and* our shareholders. And we wanted to partner with communities over the long term, sharing the cost and responsibility in situations where it made sense to do that.

In the spirit of cooperation, we went above and beyond our legal responsibilities to clean up polluted sites, investing to develop new uses for these sites that created jobs, recreational opportunities, and other benefits for communities. At Baltimore, Maryland's inner harbor, we undertook a \$100 million cleanup overseen by the Environmental Protection Agency. Partnering with the City of Baltimore, we helped redevelop the site as Harbor Point, an "integrated and sustainable waterfront neighborhood." To date, several modern office buildings have been erected on the site, and plans call for the creation of parks, residential units, and other amenities. As a prominent local politician said, "Harbor Point promises to be a vibrant and new transit-oriented and sustainable mixed-use development that provides a diversified mix of office, residential, and retail options for all city residents."⁴ At another Baltimore site, Dundalk Marine Terminal, we've partnered under a consent decree negotiated in 2006 to clean up a site heavily contaminated with chromium. Cleanup costs have run to over \$100 million, with Honeywell paying the largest share of the costs and the Maryland Port Commission also chipping in.⁵ "Throughout all the years that we've known Honeywell, we've developed trust and friendship," said Edythe Brooks, a neighborhood community leader. "Honeywell has done everything they said they were going to do, and more."⁶

THE BUSINESS CASE FOR RESOLVING LEGACY ISSUES

As good as projects like these have been for local communities, they've benefited us immensely by building up goodwill. In one instance, arsenic from one of our old industrial sites was found leaking in a Baltimore playground. We hadn't even known the arsenic was there, but now that we did, we didn't wait around for someone to sue us to clean it up. Although it cost us millions, we got out our checkbook. Sometime later I happened to run into a US senator at a social event. Pulling me aside, she expressed her satisfaction at what we had done, telling me, "I just want you to know how much all of us in Maryland appreciate how you handled that situation." Because of our more proactive and collaborative approach, we now had a community that thought more highly of our company, including an influential political leader.

Our new approach saved us money too. It's impossible to say how much, since in any particular case we don't know what a court or a jury would have eventually ordered us to pay had we taken our old, adversarial approach. But one situation that unfolded in 2005 gives us some indication. Although we had moved to reach negotiated settlements in many pending lawsuits, we had chosen to fight one claim concerning a chromium-contaminated property in Jersey City, New Jersey. Our legal department assured me that we didn't bear legal responsibility and were highly likely to win our case in court. We wound up losing it, to the tune of \$400 million dollars. As a result of the loss, we had to restate our earnings, a step that on a personal level hurt like hell. We had just started building credibility with investors, and now we had taken a big step backward. I can't say for sure, but if we had negotiated a settlement, we might well have found a way to resolve the situation to everyone's satisfaction for \$100–200 million, and not had to restate our earnings.

A key part of our proactive approach to handling legacy issues while minimizing the short-term hit entailed managing our relationship with Wall Street. Although we made sure to disclose everything the law required, we didn't do much to tout all of the progress we were making because I didn't

want to mobilize all those people who feel large companies are never doing enough, and I also didn't want to focus investors' attention on our liabilities more than absolutely necessary. I saw pretty quickly that any progress we were making on legacy issues wouldn't register immediately with Wall Street. After we set aside about \$1.5 billion for asbestos claims, CNBC's Jim Cramer applauded the move and spoke positively about our stock. But other investors felt differently, asking again and again how much more I thought we'd need in the future. When I told them this was it, and between our reserve and ongoing charges to operations we were all set on asbestos, they didn't believe me. "Everyone always underestimates their liabilities," they said to me. I assured them we had been very careful and conservative in our estimates, but it didn't matter—they still felt nervous.

I tried to win investors over by pointing out that if we set aside money up front and made other short-term sacrifices, our costs would remain fixed over time. As the company grew, these charges would *decrease* as a percentage of sales, allowing our earnings to soar. Furthermore, as I've suggested, we'd be able to tackle our legacy issues more cheaply if we addressed them immediately rather than wait for new disasters to strike (more employee deaths in our plants, for instance, or huge jury verdicts in environmental suits) and then react. Over time investors did see the wisdom of this approach. Costs related to our liabilities decreased over time as a percentage of profits, even if some of those costs—specifically, those related to resolving our environmental liabilities—turned out to be significantly greater than expected in absolute terms.⁷ Whereas JP Morgan had downgraded our stock in 2006, it upgraded us two years later, noting that environmental issues were "still a risk, but being managed well."⁸ Investors might not love you at first for resolving legacy issues, even if they claim to like long-term thinking. But they don't need to love you. Do your best to address their concerns, be consistent in your messaging, and have faith they'll come around eventually. If you move seriously to resolve these issues, and if you do it in a smart, disciplined fashion, they'll eventually notice.

BUILD A MORE RESPONSIBLE ORGANIZATION

Beyond resolving harms that had already taken place, we saw a tremendous opportunity to prevent new issues from cropping up going forward. A good example concerns our manufacturing facilities in developing countries. As we expanded our global footprint (a topic discussed in chapter 7), we had insisted that any new facilities we built in these countries be safe and clean for workers. I didn't want to risk a situation where safety or health problems at a plant one day harmed employees or others, creating a real crisis for us. I also didn't want to be a leader who allowed people to work in conditions I wouldn't have wanted to endure myself. Leaders had always assured me that our facilities were top-notch, and I had believed them. In 2012, we did a complete audit of our facilities in developing regions, making sure the cafeterias, bathrooms, dormitories, and other facilities were places we ourselves would want to use. It turned out that some of our facilities were in fact sub-par. In addition to making the necessary fixes, members of my team began traveling the world to see facilities for themselves, rigorously holding plant managers accountable. We included a review of our facilities in the regular safety and human resource audits we did, implementing new standards such as the requirement that cafeterias be good enough that facility managers wanted to eat there.

An even bigger way we aligned our people proactively behind the prevention of health, safety, and environmental problems was through the Honeywell Operating System (HOS), a major process improvement initiative we undertook across the entire organization. HOS is a system for organizing work that mobilizes other well-known process improvement tools like Lean methodologies and Six Sigma, galvanizing leaders and frontline workers to improve operations in their facilities. I'll offer a detailed look at HOS in chapter 4, but for now I'll note that as we rolled out the program around the world, thanks to the leadership of Evan Van Hook, our vice president of Health, Safety, Environment, Product Stewardship & Sustainability, we presented it explicitly as a means not merely to achieve efficiencies and

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reduce costs, but to also improve our health, safety, and environmental performance, involving HSE leaders intimately in the rollout and building HSE into daily work processes.

As part of HOS, we mandated that each facility conduct an audit of its operations every year to identify projects for increasing energy efficiency. We also required the rigorous reporting of all safety incidents when they occurred, a measure that caused our numbers of reported incidences to rise but afforded us a far more accurate picture of conditions at our plants. Employees received ongoing training on best practices in sustainability and on related technology. Just as important, workers in our local plants drove ongoing improvement in HSE by conducting daily meetings to monitor conditions and identify problems as they occurred. As Evan recalled, every single HOS-related meeting started with a conversation about safety or sustainability issues: “From the plant floor workers all the way up to plant leadership, you’re starting with, ‘Okay, what’s going on in environmental and safety? What are the key things we need to deal with? Are there any major issues?’”⁹

As part of these discussions, employees or managers at every level were empowered to make suggestions for *kaizens*, or improvement events, that bore on health, safety, and environmental concerns (these events, which convened relevant parties, including hourly workers, to solve process issues in real-time, were fundamental to HOS). In 2010, to focus our businesses even more on care for the environment in particular, we mandated that each business adopt annual budgets for energy and water usage and greenhouse gas emissions alongside their standard financial budgets. Spurred by this new accountability, our businesses unleashed HOS to drive huge additional sustainability gains. Instead of bringing in outside consultants to generate recommendations for improvements, our people did all of this work themselves. As Van Hook noted, in particular plants “it was literally a matter of people saying, ‘Okay, guys, the next two weeks we’re going to have our kaizen focused on identifying places where we’re using too much energy.’ The number of projects and savings generated were just amazing.” And because employees were developing the solutions themselves, they became

RESOLVE SERIOUS THREATS TO THE BUSINESS

far more personally engaged in sustainability and determined to see the solutions through.

At a plant in Singapore, workers noticed we were using an electrode during our manufacturing process that contained a mildly radioactive material. It wasn't a huge safety risk, but mildly radioactive particles were being released into the air at points on the electrode that were subject to grinding. Workers came up with an idea to substitute electrodes made of a different material that wasn't radioactive and didn't pose a potential health hazard. The change improved safety while also saving the plant money. Under Singaporean law, the plant was paying a small fee each year to dispose of the radioactive material. Now disposal cost nothing.¹⁰

At our plant in Olomouc, Czech Republic, workers noticed that certain steps in our use of cleaning chemicals were redundant. In particular, we were cleaning parts multiple times when they were already clean. This increased how much toxic degreasing solution we used. By redesigning the process, workers eliminated the production of thirty tons of chemical waste and reduced our consumption of natural gas by 6.5 percent—a boon for the environment. Workers were safer, since they didn't have to handle as many chemicals, and production time was shortened. The plant also saved money—about \$15,000 a year.

Some Typical Process Improvements Undertaken as Part of HOS

- In Shanghai, China, workers designed a new cutting tool that reduced worker exposure to sharp blades, decreasing the risk of hand and eye injuries and improving productivity.
- In Nantong, China, workers built a new storage tank and pump system that allowed for reuse of water during the production process, lowering consumption and saving \$30,000 each year.

WINNING NOW, WINNING LATER

- In Groveport, Ohio, workers installed a new barrier at our dock doors, reducing the risks that employees would inadvertently fall off the docks.
- In Chennai, India, the plant implemented an energy conservation program. The process changes they implemented saved 5,000 kilowatt-hours a month of energy, and almost \$900,000 a year.
- In Pune, India, our plant installed solar panels on the facility's roof, a measure that will generate 18 percent of the plant's power needs and save an estimated \$70,000 each year.

SUSTAINED INCREMENTAL IMPROVEMENTS ADD UP

Leaders often think of improving safety and reducing their environmental footprint as inherently costly, and it's true that making gains in these areas usually does require some up-front investment. But as we've found, process improvement can reduce costs while also proactively reducing harm to employees and the environment. Why wait for environmental and safety lapses to pile up? Attack them *before* a lawsuit, injury, or public outcry forces you to.

It took fifteen years, but thanks to HOS and the massive investments we've made in resolving our historical liabilities, we've gotten these challenges under control. We continue to litigate many asbestos cases, but we managed to contain our NARCO-related liability by creating a trust that uses revenues from that company's operations to help pay back plaintiffs, with Honeywell responsible for the difference. Regarding our environmental lawsuits, it cost us more than I imagined—\$3.5 billion over fifteen years versus the \$2 billion over ten years I had originally projected—but we have resolved all of our big environmental liabilities. Our annual spending on our asbestos-related and environmental liabilities has remained constant, even as our revenues have nearly doubled. Whereas initially we spent 2 percent of revenues each year on these liabilities, today it's significantly less than that, meaning we have additional resources freed up to invest in actually

RESOLVE SERIOUS THREATS TO THE BUSINESS

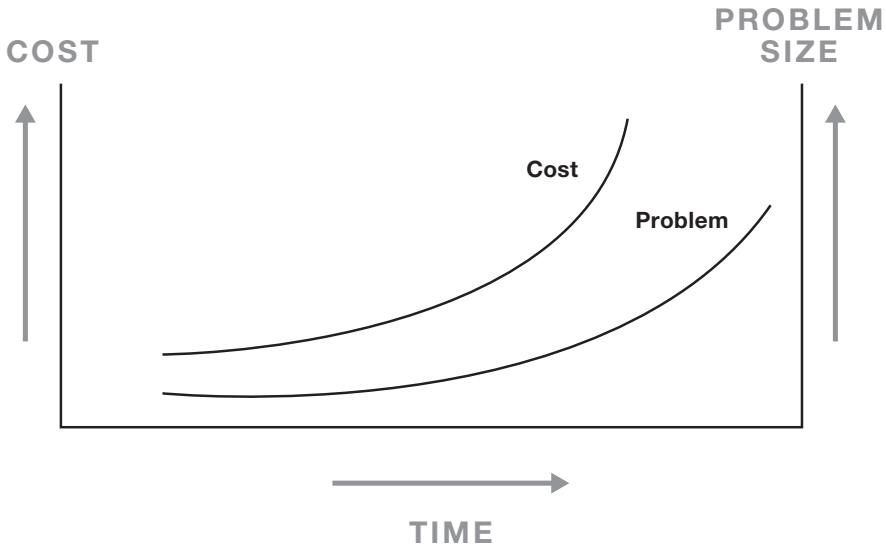
growing our business. At the same time, we've reduced risk to our business, eliminating all of those potential time bombs.

Thanks to our organizational improvements, we're now a much safer, more environmentally responsible company than we used to be. The frequency of environmental incidents at Honeywell has declined by 93 percent between 2005 and 2018. As of 2018, we were about 70 percent more energy efficient than we had been in 2004, and our safety record has dramatically improved—we're currently 80 percent better than the industry average. Meanwhile, we've received dozens of awards for our financial and environmental performance, won plaudits from investors, and had a pension fund that was *overfunded* by 10 percent—huge changes compared to where we had been, and changes that would benefit the company well into the future. Instead of a company under siege, we're in control of our destiny, all because we were willing to own our problems and make the necessary short-term investments.

CHANGING HOW YOU APPROACH LEGACY ISSUES

You can put your business on a surer footing too. Suck it up and deal with the skeletons in your closet—not next year, or in three years, but *now*. And for heaven's sake, don't do it halfway. Be *honest* with yourself, your investors, and your bosses about the situation your business is in and set aside all the funds required to resolve legacy issues. Underestimating the size of these issues might improve your short-term results, but they'll create new headaches later on. In general, when you have a problem to address, it pays to over-resource the solution up front, since it always costs less to resolve problems earlier rather than later, even if the short-term cost seems high at the time. I often used the following simple chart to describe what happens to problems and the resources required to address them over time:

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The last thing you want to do is go back to bosses or investors for more money later once your investments have proven insufficient. You'll lose credibility, leaving the impression that you don't understand the depth of the problems before you. On the other hand, if you wind up overestimating the costs, you'll look even better later on. You'll have resolved the issues, while also presenting bosses and investors with a pleasant surprise: it hasn't cost as much as you thought.

Don't just put money behind the resolution of legacy issues; put the right talent too. Look for people who have the respect of plaintiffs and regulators, understand how they think and can work with them and you, and who are smart and creative enough to address lingering issues in new ways. More generally, take an "inside out" approach to legacy issues, improving the entire organization so that it behaves more responsibly toward workers, local communities, and the environment. If you're paying to resolve harm done decades ago, and you're still polluting the environment or subjecting workers to unsafe conditions, then you haven't fully put your organization on a growth footing. Future leaders will still have a mess to clean up, one that was created on *your* watch. And to the outside world, your efforts to clean up polluted areas and settle outstanding lawsuits will seem half-hearted at best.

ADDRESSING LEGACY ISSUES FROM THE MIDDLE

Some mid-level managers reading this might doubt whether they have enough power to resolve legacy issues. Actually, you might have more power than you think. Not every legacy issue rises to the level of corporate strategy. If you manage a particular facility, and a broken process you inherited is causing a safety hazard, you can change the process and give your employees the safety training they need. If you have a site on your property filled with potentially hazardous materials or other junk lying around, you can take money out of your budget to clean it up. If a broken sales organization seems poised to cause problems in the years ahead, you can reform that organization now. If specific work processes in your facility are subjecting workers to repetitive stress injuries, rework the processes.

On one occasion when I was running General Electric's silicones business, I visited a plant that was a mess and told the leadership team there to clean up the place. I directed everyone's attention to the drums of chemicals that were lying around, machines that were broken and posing safety hazards, and so on. One employee raised her hand and said, "Hey, if you really want to solve these issues, why don't you take a look at the big trash pile that's located right outside my workspace? It's probably loaded with toxic materials, and it's been there for years." I asked to see this spot, and was appalled by what I saw: a large space full of buckets, chemical drums, and random junk. There we were, talking about safety and health, and this facility has a garbage dump right out in the open, in close proximity to employees.

The plant manager, whom I had recently installed, told me it would take time to dispose of all of this material properly, but he would chip away at it, working with the health, safety, and environmental people on site to make sure the work was done properly. He was true to his word, and within a few months the entire garbage heap was cleared out. I didn't ask my boss if I could have my plant manager spend the money to clean up the plant, nor did I coordinate it with our corporate health and safety folks. I just did it. And you can too. Don't sit there like a victim and say, "I don't have a choice." By

WINNING NOW, WINNING LATER

stepping up now and taking the hit to profits, you lower the risks to your business and position yourself for success later.

Now, I'm not suggesting that you should turn the issues you find into a holy crusade. Clearly you need to be thoughtful about it. Try to consider your boss's perspective. Your boss isn't going to be happy to learn of a safety or environmental issue that requires fixing—he or she has numbers to make too. So take the time to explain the problem fully, and to think through and suggest a number of alternatives. Don't just say, "The only way to solve this problem is to hire consultants and buy a \$3 million piece of equipment." Instead, offer a low cost (but possibly less effective) solution, a middle-range solution, and a more expensive solution that would allow you to go all in and solve the problem to the greatest degree of certainty. Be prepared to argue for the solution you believe best, but give your boss some leeway in deciding how to proceed.

If your boss denies the problem and refuses to address it, then your situation becomes a bit more difficult. If you see serious environmental or safety issues cropping up, you might need to go above your boss's head, even if this will potentially damage your career. Would you want someone to die or become seriously injured because you failed to take action? Before you do that, though, see if there might be another way to address the problem. If you face an environmental issue, reach out to the environmental officer assigned to your facility, or to someone from legal, and ask for any ideas they might have as to how you should proceed. They might decide to address the issue themselves, which will take some of the career risk off your shoulders. At the very least, they might have suggestions for how to explain the problem to your boss so that he or she understands the situation and takes action. If you have concerns about those approaches, you might consider reporting the problem anonymously to someone in the organization (many large companies maintain 1-800 numbers for this purpose). Do your best to see that the problem gets addressed, only taking on career risk to the extent it's ethically warranted given the nature and seriousness of the problem. If the problem won't cause imminent harm but is instead a longer-term threat, you want to be more careful and allow for the possibility that your judgement about it is incorrect.

CLEANING UP “AMERICA’S MOST POLLUTED LAKE”

A century ago, Onondaga Lake, a roughly four-and-a-half-mile-long lake adjacent to the city of Syracuse, New York, was an entertainment and leisure destination, with hotels, beaches, dance halls, and restaurants lining its shores.¹¹ It was the “Coney Island of Central New York.”¹² For hundreds of years before that, the Haudenosaunee Indians had regarded the lake as sacred, relying on it for food and water. Then along came industrialization, and everything changed. The lake was used as a dumping ground by companies, including Allied Chemical, now owned by Honeywell. During the mid-to late twentieth century, Allied Chemical’s operations allegedly released some “165,000 pounds of mercury into the lake.”¹³ Other industrial contaminants in the lake included “polychlorinated biphenyls (PCBs); pesticides; creosotes; heavy metals, including lead, cobalt, [and] cadmium . . . ; polycyclic aromatic hydrocarbons; and volatile organic compounds such and chlorobenzene, benzene, and toluene.”¹⁴

For decades, the City of Syracuse had also deposited untreated sewage directly into the lake, leading to an array of environmental issues.¹⁵ By the 1940s, the lake was off-limits to swimming, and fishing was banned during the 1970s. One local woman told a reporter she was told as a child that her skin would slough off if she stepped into the lake, while another remembered his family rolling their car windows up during the 1950s while driving past the lake because the smell was so bad.¹⁶ The lake became known as America’s most polluted lake.¹⁷

Since the 1970s, efforts had been made to clean up Onondaga Lake. In 1994, following a lawsuit filed by New York State, the site became listed as a Superfund site by the Environmental Protection Agency.¹⁸ In 2006, after many years of study and extensive discussion with government officials, Honeywell agreed to completing a remedy for the lake that the agencies estimated at \$451 million, including the removal of millions of cubic yards of contaminated sediment, the covering off of contaminated areas of the lake bed with layers of material, and the rehabilitation of shorelines and wetland

areas.¹⁹ Local authorities agreed to spend another \$500 million to address the sewage pollution problem.

As this work has proceeded, the lake's recovery has been palpable. Levels of contaminants measured in the water have plummeted, fish species have returned to the lake, and bird life has also flourished.²⁰ As the New York State Department of Environmental Conservation reported, "Many years of research and remediation has made Onondaga Lake the cleanest it has been in over a century." Although some advocates contend that the cleanup hasn't gone far enough, a milestone was reached in 2015 when people could once again swim in the lake. At an event covered by local media, several dozen people, including our own health and safety leaders, jumped into the water to celebrate the lake's return. Cornelius B. Murphy Jr., a former president of the State University of New York's College of Environmental Science and Forestry, exulted in the progress: "The lake now is joyful. It lifts our spirits. It's an extraordinary asset."²¹ Joanie Mahoney, the county executive of Onondaga County, remarked that "Honeywell's willingness to meet and exceed its obligations is the reason that we're standing here today. I'm very proud to be partnering with them in this cleanup."²²

In 2017, Honeywell completed its work on the lake, although smaller projects were still ongoing, including the construction of trails and wildlife habitat.²³ As of this writing in 2018, residents were continuing to rediscover the lake as a place for swimming, fishing, boating, and other leisure pursuits. Local authorities were even exploring whether to construct a new beach. As the state Departments of Health and of Environmental Conservation said, "A beach on Onondaga Lake is now a real possibility, thanks to the significant improvements in lake water quality evident for more than a decade, and the recent completion of the Onondaga Lake remediation."²⁴

The recovery of Onondaga Lake stands as one of our proudest accomplishments in recent years. If we had continued to pass the buck to future leaders, the lake would likely be much dirtier than it currently is, and Honeywell would probably be paying an even bigger bill down the road to clean it up while seeing our image deteriorate further. Because we sat down to negotiate with local communities, we contained the risk to our business

RESOLVE SERIOUS THREATS TO THE BUSINESS

while also doing the right thing and building our brand. It wasn't easy at the time coming up with that \$451 million. Few people applauded our endeavors, least of all investors. But thankfully, we stayed the course, and today I take great satisfaction at knowing that we helped make the planet a better place while putting future Honeywell leaders in a stronger position to pursue the company's fortunes. Our workforce feels great about what we've done too.

I want something similar for you. If your business has long labored under the shadow of legacy issues, do something different. Get real about your business and its challenges. While senior leaders should look to tackle big, corporate-level issues, managers elsewhere in the organization can address an array of longstanding problems at the team, facility, or regional level, such as outdated sales force organizations, legacy manufacturing processes that might harm people or the environment, or bad engineering practices that yield poor designs. Whatever your area of responsibility, resolve the outstanding liabilities that threaten to drag down future growth, even if it means taking a short-term hit. Show some courage—be the leader *you* want to be. Without legacy issues hanging over your head, you'll be able to focus on building up your business to compete better and win, and you'll channel the money you save by resolving issues proactively back into the business. You won't reap all of the financial benefits—your successors will inherit them as well. What you will reap is a legacy, a reputation as a strong, transformational leader. And from where I sit, that feels pretty good.

QUESTIONS TO ASK YOURSELF

1. Have previous leaders your business been putting off handling historic issues? How big are your liabilities really?
2. When is the last time you paid surprise visits to check up on conditions in your facilities? If problems are arising, don't be shy—get out there!
3. When you make big decisions, are you thinking about minimizing

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- risks to your business years, even decades down the road? Are you ignoring any potential time bombs?
4. Is your business really living up to the lofty ideals enshrined in your mission or vision statements? Are employees or others noting the contradictions?
 5. How do you react when employees or others bring potential liabilities to your attention? Do you investigate them fully and remedy them if necessary, or do you let them slide and focus on other priorities?
 6. Do you tend to over-resource the resolution of problems at the beginning so that you can close them out more effectively, or do you let problems linger?
 7. Do you have the right people in your organization to drive meaningful progress on legacy issues? If not, go get some, even if it means making unexpected hires.
 8. Are you honestly communicating to investors and other interested parties the full extent of your liabilities?
 9. Are you constantly improving your operations to minimize the risk of creating new liabilities that future leaders will have to deal with?
 10. If you're a mid-level manager, are you responding appropriately to issues you uncover? You might have more power than you think to make a difference.

Focus on Process

There's an invisible hero at Honeywell's industrial plants: compressed air. We use it to perform mechanical functions in our production processes—moving parts from one place to another, cleaning them, spray-painting them, attaching other components to them. In 2012, as part of our efforts to standardize and improve operations across all of our facilities, we decided to review how efficiently we were using compressed air. Although air was cheap, compressing it to high pressure required quite a bit of energy, and hence expense. We surveyed conditions at twenty-six facilities, uncovering over 1,600 leaks in our compressed air systems. Fixing those leaks—and importantly, keeping them fixed—saved us over \$800,000 in energy costs. We also took the opportunity to survey how we were using industrial gases like nitrogen, argon, and helium, and realized an additional savings of about \$120,000.

These numbers were small for a company of our size, but these were just two process improvement projects among countless others we were undertaking. In 2005, we had embarked on a company-wide quest to improve operations at our facilities worldwide, rolling out a new approach to organizing how we worked called the Honeywell Operating System (HOS). HOS was—and is—a comprehensive system for operating our plants that brought managers and employees together to continuously improve processes. Whereas companies often struggle to make process

improvements stick, we designed HOS to help us make changes permanent so we wouldn't have to go back a few years later and implement them again. Although HOS incorporated tools from the widely adopted Six Sigma and Lean process improvement approaches, it was broader, addressing not just specific processes and workflows but the complex relationships between the many processes in a given facility. Involving everyone associated with a given process, HOS fit specific tools within an overall culture and management system that determined how a given plant would operate in its entirety, and that allowed us to standardize our approach to process change across Honeywell's operations.

With HOS in place, individual plants had both the mind-set and the tools to scrutinize their existing operations and improve them on an ongoing basis. The result was a constant stream of projects large and small that permanently improved quality, customer satisfaction, and safety while reducing cost, inventory, and our environmental footprint. Our plants performed better financially because they *were* better. One plant of ours in Illinois used to require forty-two days to make gas detection equipment and get it to customers' doors once an order was received. After HOS, it took ten days—and we needed only a quarter of the factory floor space for production.¹

In addition to massive productivity gains across our company, HOS delivered the staggering improvements in safety and environmental performance described in the previous chapter. It's hard to quantify the overall financial impact on Honeywell, but it was profound. A 2012 article in the *Economist* credited HOS with helping to make Honeywell “one of America's most successful companies.”² *Fortune* observed that the “rewards” of the Honeywell Operating System “have been spectacular.”³

Constant, sustained process improvement is vital for any company seeking to win today *and* tomorrow. Earlier in this book, I described our strategy of “perpetually restructuring” our businesses in order to keep fixed costs constant as our businesses grew, thus increasing profits over time as well as the funds available for growth initiatives. Such restructuring won't help you if it isn't linked to ongoing, permanent improvement of underlying

FOCUS ON PROCESS

operational processes. Businesses of all kinds are little more than collections of processes, and in most businesses, all processes are highly inefficient. As a leader you should *assume* you can render any process in your organization more efficient and effective, thus accomplishing two seemingly conflicting things at the same time (improve delivery *and* lower cost, for instance).

By improving processes on an ongoing, permanent basis, companies can realize big-company efficiency with small-company speed. They do this by increasing output without adding to one of their biggest costs: people. Companies focused on process improvement realize other efficiencies too. If processes on an assembly line work better, you can keep less inventory on hand, operate fewer warehouses, and maintain fewer IT systems to control those warehouses, for instance, while also improving employee morale because the work is more fulfilling. Over time you do wind up hiring more people because you become more competitive and grow sales, not because you're working inefficiently. Process improvement thus represents another area in which initial investments, properly calibrated to maintain sufficient short-term shareholder returns, can pay dividends later on, setting a company up for better short-term performance, as well as an ever-increasing ability to invest in its future.

BRING INTELLECTUAL ENGAGEMENT TO THE FACTORY FLOOR

Our introduction of HOS originated in one of those X days I described in chapter 1, where I took time out to sit alone in my office, think freely about our company and its stakeholders, and jot down my musings in a blue notebook. In 2003, about a year after I'd arrived at Honeywell, I was scanning through a report on our employee headcount across our facilities, looking for ideas for improving our business, and I found myself wondering what our workforce did exactly. I noticed about half of our 115,000 employees at the time worked in manufacturing. If we could improve these employees' productivity, I thought, we could dramatically improve our profitability.

One strategy that occurred to me was to enlist employees' help in

improving processes at our plants. As I knew from my days as an hourly factory worker, the vast majority of workers want to do a great job and use their minds to improve weak or wasteful processes. But in traditional manufacturing environments, they lack formal processes and procedures for doing so. I had operated a machine that punched out little pieces of metal. What were these pieces for? Where did they go after they left my station? Damned if I knew. Managers expected me to do my job, but I didn't receive much instruction, nor did I get a sense of the broader picture of my plant. Managers didn't expect me to actually *think* about what I was doing, and they didn't give me a voice in improving my job or the plant's overall operations. I would notice a particular procedure and ask managers, "Why do we do it this way?" but I never got much of an answer. All managers cared about was that those little pieces of metal got punched out at a fast enough clip. As a result, I hadn't been engaged at all in helping improve plant processes.

At Honeywell, involving frontline staff in process improvement would allow us to achieve multiple objectives at the same time: we could weed out inefficiencies and improve performance across a number of dimensions while also giving workers a voice and engaging their minds to the fullest. But as I saw it, there was a catch: any process improvement effort we undertook would have to be a company-wide initiative, not something we devolved on individual businesses or plants to pursue as they wished. There was no consistency to how work was done at Honeywell, and no officially sanctioned model for how to operate a plant. Local plant leaders all thought their way was best, if they thought about it at all. As a result, many of our plants were highly inefficient and ineffective. Some plants had been trying to improve processes, but their efforts had gone nowhere because they weren't part of a comprehensive system consistently applied over an extended period.

Joe Desarla, manufacturing head for our Automation and Control Solutions business unit, used to joke that he lived in terror of one of his plant managers reading a book over the weekend and coming in Monday morning saying, "I've got the answer to what we've been doing wrong." Managers had a habit of throwing out previous improvements efforts on a whim and bringing in some new idea. A year or two later, they would leave, and a new

FOCUS ON PROCESS

manager would bring in their supposedly genius ideas. “We’d never make progress because we just kept churning,” Desarla said.⁴

If we could implement a uniform system for continuously improving operations in all of our plants, and if we could design that system to engage the brainpower of thousands of people in process change rather than relying on the weekend reading habits of individual managers, we could make sustained progress and over a period of years shift the entire company’s fortunes. But how, I asked myself, should we go about devising such a system?

I thought immediately of the Toyota Production System (TPS), the auto-maker’s legendary system for improving processes at its plants to reduce waste and improve efficiency and effectiveness.⁵ I’d been reading about it for years, and from what I knew, this system wasn’t just about running plants better; rather, it was a way of structuring the workdays of managers and employees so that they would interact regularly. When issues arose, employees could immediately bring them to managers’ attention, and be assured that managers would take those issues seriously and work to resolve them. Workers had a chance to participate in kaizen events that helped them understand the larger processes to which their jobs contributed and that allowed them to provide input as to how those processes might be run differently or better. TPS also emphasized making sure that plants were clean and orderly, and that work was standardized to the extent possible.

I wondered if we might connect with Toyota to see if we could learn more about TPS and incorporate elements of it into a new operating system for Honeywell. Later that year, I asked Desarla to lead a visit of sixty of our high-level leaders in manufacturing, purchasing, and logistics to Toyota’s training facility in Georgetown, Kentucky. What these leaders saw impressed them. As Desarla remembered, the Toyota teams he observed “knew what to do when crises hit, and you didn’t have a bunch of people yelling at each other or pointing fingers, because everything was done through a process.” The plant was clean and clearly marked, with teams tracking performance on work boards and via quality checks within production lines. Most importantly, the people were “engaged in the process. It wasn’t all top-down . . . These were fully engaged employees, fully engaged management.” Because

the work was standardized, people “knew what they were supposed to do, and they took ownership.”⁶ These were all elements we sought to bring back to Honeywell.

RAMP UP PROCESS CHANGE SLOWLY

Our people returned from Toyota and some “best practices” visits to other companies eager to introduce TPS everywhere and all at once. They wanted it to cover every one of our plants and every function within those plants, as well as our corporate functions. “Whoa,” I said. “Slow down.” Toyota had rolled out process improvement methodology in new plants with newly hired employees who had been chosen based on their predisposition to work according to TPS. Some of our factories had been around for eighty years and had workers and managers who had been on the job for decades. We couldn’t pop in on these people and tell them, “On Monday everything’s going to work differently around here, so come prepared with a new mind-set.” Workers and managers would just ignore TPS, regarding it as a bunch of corporate bullshit, another “program of the month” that wouldn’t last. Also, many workers and managers felt they were already busy with their jobs. In unveiling a new initiative, in their minds corporate would be asking them to do something “additional.” Why should they make the effort?

Before we could succeed with TPS, we would need to help our workforce see the system not as something added on to their jobs but as a better way to do their jobs, and in fact as a defining and permanent feature of work at Honeywell. That mind-set shift would take time. It would only work if we unrolled TPS slowly, carefully, and relentlessly, building understanding and support among the workforce (salaried and hourly) plant by plant. We had to allow for a period of acculturation if our workforce was to accept and use TPS as we envisioned.

We had seen previous change efforts underperform precisely because we had failed to change mind-sets and galvanize our workforce. In 2002, we had begun to comprehensively train our workforce in the Six Sigma methodology

FOCUS ON PROCESS

for both design and manufacturing, hoping to improve the quality of our production processes. Previous Six Sigma training had touched only a small percentage of manufacturing people and products, and no engineers. But I rolled out the program too quickly and hadn't refined how we presented it to workers and managers so that their mindset would change and they'd view it as more than just a training exercise. Plants that had trained in Six Sigma didn't see appreciable improvements in quality because they hadn't changed how they did their work. We were a mile wide, so to speak, in how much training we had delivered, but only an inch deep in terms of how people were using the tools. Company-wide, we improved in quality, but not nearly as much as we might have.

My failure to prepare the company and implement changes in a way that would stick would hit me some time later, when I visited our Aerospace facility in Malaysia. The plant manager proudly showed me charts documenting how teams had improved producibility (the percentage of parts that emerge from production perfect the first time around) from 72 percent to 85 percent. That represented progress, but I couldn't help but wonder why, after years of Six Sigma, we weren't at 99-plus+ percent. Digging into it, I learned that the business had recently shifted production of a number of its poorly designed products to a new facility in Malaysia rather than fix the designs. In other words, they decided to manufacture poor designs in a lower-cost factory rather than fix the designs. Not very "Six Sigma" at all.

We went back and implemented Six Sigma again more rigorously. Our Aerospace leader put in place quantifiable, trackable producibility metrics to govern every new design. The engineers protested, claiming this would slow down their design schedules, but we insisted that they do two seemingly conflicting things at the same time: deliver producible designs and do it on time. Our leader also allocated full-time staff to fix one thousand previously existing designs so that they were more producible. We called it "D-Day," and then "Normandy." By fixing old designs and making sure that new ones were producible, we were both "draining the swamp," so to speak, and stopping inflow to that same swamp, two actions that are always

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required when addressing an issue.⁷ In this way, we finally got Six Sigma to “stick,” and it has paid off enormously.

TAKE A PHASED APPROACH

To avoid such problems with TPS, we implemented it differently, phasing it in stages so that we could analyze our initial experience and refine our approach. We piloted the methodology in ten plants for six months, tracking whether safety, quality, delivery, cost, and inventory improved. Afterward, we determined what had worked and why, and then revamped how we implemented TPS. For example, we learned how critical it was to have a plant manager who recognized the magnitude of the change we were seeking and truly bought into it, adding this to the checklist we ran through before implementing TPS in a given plant. We unrolled the revised methodology in five more plants to see what happened. Analyzing this round of implementation, we made some further tweaks, like adding experts trained in TPS to plants on a full-time basis, and then tested TPS in another two plants.

With our implementation plan now fully refined, we rolled out our version of TPS in thirty plants out of 250 or so, investing heavily in the right people and support to ensure the methodology really worked, and making leadership changes in factories as needed. About 80 percent of this new methodology owed to TPS, while the remainder consisted of tools or processes that we borrowed from other companies or developed ourselves. Despite the obvious debt we owed to Toyota, we branded the methodology the Honeywell Operating System (HOS), since we wanted people to think of this new methodology as a true operating system, and something to which Honeywell was deeply committed. HOS wasn't just flavor of the month. It was the way we would run our company.

These initial implementations took place over about three years. We then asked each of our business units to identify the next group of factories where we could introduce HOS. After we had implemented HOS in this cohort, and as we continued to add subsequent cohorts, we began to incorporate

FOCUS ON PROCESS

HOS into our mergers and acquisitions strategy (chapter 8). When we integrated new acquisitions into our own company, we wanted to ensure that their manufacturing facilities were inculcated in the HOS mind-set and tools, recognizing that we would realize tremendous cost synergies. We also implemented a rule that leaders within Honeywell couldn't restructure or combine manufacturing plants unless those plants were already certified at a certain level of competency in HOS. A system like HOS allows you to uncover hidden processes that exist in factories—all those workarounds that accumulate over time as people try to deal with bad, official processes in place. As we found, you could restructure or consolidate manufacturing a whole lot more effectively if you had already surfaced and dealt with the "hidden factory." For instance, our acquisitions in gas detection benefited greatly from HOS. We significantly improved money-losing operations, making them highly profitable and improving quality and delivery.

Despite our more careful approach, the implementation of HOS wasn't without its bumps. During the early implementations especially, plant managers and their staff members sometimes resisted HOS, disliking change. In a few cases we had to let these leaders go in order for HOS to take root. Resistance in these plants died down considerably, and implementation became easier.

As we spread HOS across the company, we managed to cut the time it took to fully implement HOS in a facility from three years to eighteen months. During our early implementations, factories saw almost immediate efficiency and productivity gains. In 2006, our plant in Atessa, Italy, lowered defects in its products by 80 percent, and saw a seven percentage point increase in its on-time customer delivery rate after implementing HOS.⁸ Managers at other plants heard about such successes and became more eager to roll it out as well. Meanwhile, our manufacturing leaders did a good job of alerting plants that change was coming so that they could begin preparing for it.

Another significant source of resistance came from our finance organization. About six months after we had begun piloting HOS, our CFO told me that in his view HOS was a monumental waste of time and money—it simply wouldn't deliver benefits for us. I could have just shut him down, but instead, in line with the philosophy of testing my own beliefs and assumptions, I

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asked him to analyze the project closely, understand what it cost and the effects it was having on our businesses, and then come back to me with a conclusion. He and his team spent three months studying HOS and afterward reported that he had changed his mind—the program would work, and he was getting behind it. This was a huge win. An entire organization within Honeywell that might have opposed HOS and impeded its implementation were now true believers and supporters. Meanwhile, I received valuable reassurance that we were indeed on the right track. If after reading chapter 1 you needed more proof of how important it is to encourage dissenting opinions within organization, now you have it.

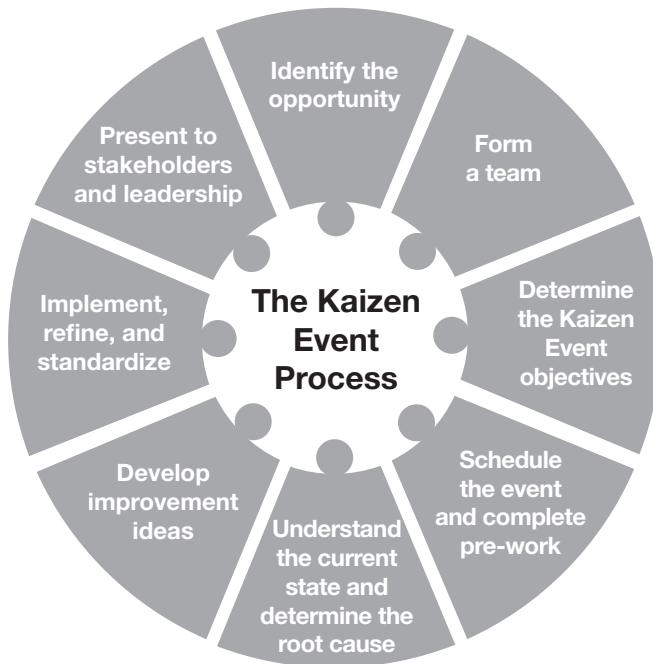
PROCESS CHANGE PAYS OFF

All told, we spent a decade relentlessly implementing HOS across the company. In a typical plant, HOS empowered employees to propose hundreds of ideas to improve processes. Costs dropped by 15 to 20 percent, while safety, inventory, delivery, and quality all improved by similar margins. In previously crowded factories, we could suddenly do more with fewer people and 20 to 30 percent less floor space thanks to the more efficient and effective processes HOS engendered. And because HOS enabled ongoing process improvement, our gains continued to mount over time. If a given plant became 3 percent more efficient each year thanks to HOS as opposed to only 1 percent more efficient without it, that translated into an incredible performance gain over a decade or more thanks to the miracle of compounding. HOS was taking us to new heights in performance, while also increasing how fast our performance was improving.

HOS boosted worker engagement in our factories as well, including at union facilities that often resisted corporate initiatives like these. Employees appreciated the chance to improve their work via kaizens, as well as management's new responsiveness to issues workers raised. Every day, first thing in the morning, they had an opportunity to bring up concerns they encountered, and this information would dart up and down the

FOCUS ON PROCESS

chain of command in subsequent meetings held every day. Someone would be assigned to fix the problem and report on it the next day (see the figure below for a more detailed summary of how improvement or kaizen events transpired). Although rendering processes more efficient would frequently eliminate the need for some workers, employees didn't see that as a threat. We were becoming a better company, which meant we were growing. As a result, we would usually find new jobs for anyone who had been displaced, and we were also in a position to raise salaries as productivity increased. Most people hate to work with inefficient, ineffective processes—they want to go home each night to their families and proudly talk about what they had accomplished. By giving employees the chance to engage mentally with their work and to be part of a team that worked *better* together, HOS improved both retention and morale.



While visiting Honeywell plants, Desarla remembered listening to a presentation about process improvement ideas delivered by a number of unionized hourly employees. One employee stood before a white board and

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described a complex map of a new, more efficient production process, noting the improvement had reduced the workforce required by two people. “I thought that was incredible,” Desarla said. “It’s not what you usually hear. The enthusiasm of a unionized hourly work force just reinforced the idea that we were on the right track.” Desarla further noted that this excitement wasn’t limited to particular geographies. He recalled, “The enthusiasm in Eastern Europe, China, India, the UK, Western Europe—it didn’t matter where we were applying [HOS] principles, you could watch that spark get lit. It was very exciting to participate in that growth around the world.”

“Go slow to go fast” became our mantra when it came to process change. Early on in an improvement initiative, excitement can overwhelm judgement, and while change happens, it usually doesn’t stick. You simply must go more slowly than you might want. Doing so at Honeywell required quite a bit of discussion with analysts and investors, who wanted to know how many basis points our margins would grow each year as we implemented HOS. In the short term, they weren’t satisfied with my truthful answer that we didn’t know, nor did they like it when I told them that we wouldn’t see much visible impact in the beginning, and that the impact would build over time. Over the long term, as our margin rates did grow, they were of course quite pleased.

IMPROVE YOUR BUSINESS FUNCTIONS

Process improvement isn’t just for production lines. You can also use it to improve back-office or administrative functions as well. I first got the idea of applying something like HOS to our functions in 2004 while performing—you guessed it—another blue book exercise. I was looking at our financial statements, and when I reached the line for SG&A (Sales, General, and Administrative, which includes functions like IT, legal, finance, and human resources), I thought, *Hey, we aren’t really doing anything to improve operations in these areas.* We didn’t feel much pressure here to operate more efficiently. When I became CEO, Wall Street already credited us for having

FOCUS ON PROCESS

relatively little administrative overhead. Our finance, IT, legal, and HR functions also believed themselves incredibly lean and under-resourced. But were they really?

I came up with a financial goal for our functions, asking them to reduce their costs by 50 percent as a percent of sales. And in keeping with my philosophy of doing two conflicting things at the same time, I wanted them to cut those costs while also enhancing the services they delivered. Rather than reduce the size of these departments and force them to do the same work with less, I informed everyone that budgets for these departments would remain flat forever, and that we would expect these departments to better their services even as our company grew and demands on these departments increased.

To achieve this seemingly impossible goal, we asked our functions to enhance work processes, implementing metrics (usually via anonymous surveys of their internal customers) to ensure that they delivered better service to their internal customers even as they reduced costs. We referred to this initiative as “Functional Transformation,” and as part of this effort, we asked our functional leaders to begin submitting five-year strategic plans every year, just like our business units did. Business leaders would participate in their strategic reviews, contributing their opinions about how well our functional teams were performing for them and identifying areas for improvement. In my experience, corporate staff usually get to comment on what business managers are doing, but business heads seldom have an avenue for letting the staff functions know how well their people are serving them. That had to change. I wanted our functional departments to commit to providing great customer service, recognizing that our businesses brought in the revenue that supported everyone at Honeywell. As we told corporate functional leaders, it was no longer enough for them to be smart in their functional area. They had to make sure that work got done more efficiently *and* effectively.

Four Steps to Better Functional Organizations

1. Create a financial goal for each business function.
2. Demand that functions hold costs flat (no inflation adjustments) or even cut costs as the organization grows while also improving service.
3. Have functions develop annual strategic plans that accomplish both.
4. Establish service metrics and goals, then use surveys to confirm that service is getting better over time

Some functional leaders pushed back, doubting we could ever reduce costs as a percent of sales by 50 percent. Our IT department ran a study, benchmarking four of our functions against peer companies. It turned out we weren't quite as lean as we thought. On average, our functions were twice as expensive as a percentage of sales as those at other companies that were then considered "world class." Our finance team still didn't believe it, so they ran their own study—and came to similar conclusions. With leaders finally on board, our functions overhauled numerous processes. Our IT department consolidated servers, revamped its purchasing, and adopted new technologies to become more efficient and effective. Our HR department performed a wide-ranging analysis of their work in the field, discovering that they employed too many generalists. By adjusting roles within the department and consolidating and automating some of their activities, they were able to provide better service at much lower cost. Our legal team performed a preventive analysis of all existing lawsuits, implementing numerous changes that reduced the number of lawsuits filed against us.

Over time, a mind-set of continuous improvement in our functions took hold. HR and finance actually began a friendly competition over which department would show the biggest service improvement gains. One year, when our HR team came out ahead, they put up a big poster on one of our windows that faced the area where the finance team sat. The finance team

FOCUS ON PROCESS

still had higher overall levels of service quality, so they put up a poster of their own that helpfully pointed that out.

Our Functional Transformation efforts paid off handsomely. Between 2004 and 2006 alone, we saved over \$170 million thanks to this initiative.¹⁰ Over the next ten years, Honeywell doubled in size, yet our budgets for these functions *declined* by about \$1 billion (about 30 percent in real time dollars, 44 percent as a percent of sales), or about \$1 per share, while service quality improved. Now we really were running leaner, putting real money into investors' pockets while improving our performance.

GO DEEP ON PROCESS

If you wish to improve operations in your organization, proceed deliberately. Focus on changing underlying mind-sets, transforming the culture so process change becomes permanent. It's so important to do process improvement right. If you don't, you don't merely waste resources and stagnate as an organization—you stand a strong chance of moving backward. Bad process improvement is devastating. As people discover they haven't made progress, they become even more dispirited, unmotivated, disillusioned, and unengaged than they had been. Customers suffer, forced to navigate processes that have become even more ineffective. As some of these customers leave, business results slide. Meanwhile, companies find that they need to re-implement process change again after a few years because it didn't stick the first time. Such failures cost money and reinforce the notion that process change is merely a passing fancy among management.

Rather than implementing your initiative the way organizations commonly do, first immerse yourself in the details to discover what works for *your* organization. As tempting as it might be to rush, test and refine how you're rolling out major operational changes, and build a track record of success that can get others in your organization excited about the change. Also, put resources behind it. We dedicated dozens of full-time people across the company to implementing HOS, placing a full-time HOS expert on every

plant manager's staff. That was important, because it showed our workforce that we were committed to HOS success, and it also gave our plant managers the ability to run their plants while still ensuring that change was taking place. As the old saying goes, if you make a change initiative everyone's part-time job, you get part-time results. We wanted full-time results, so we put the necessary people and money behind it . . . full time.

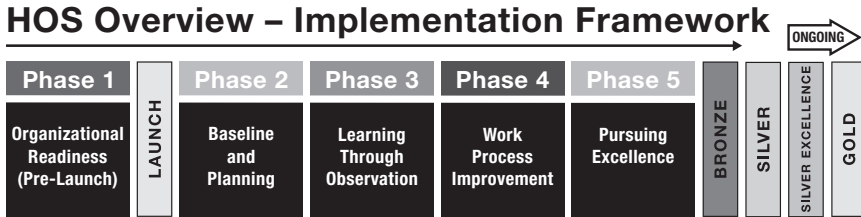
With a strong implementation plan in place, keep a close eye on how your process improvement initiative is progressing. Never take change for granted. Facilities have no problem generating nice-sounding stories about the changes they're making. But what do the numbers say? Is the change as profound as plant leaders think? And is it persisting? Entropy is the rule in organizations, as it is in the physical universe. Over time all organized systems evolve toward chaos. Unless you pursue change relentlessly, your efforts will eventually wither away.

The metrics we used to evaluate our HOS introduction at individual plants allowed us to confirm that the changes we wanted were real, and that the plant was sustaining them. We also defined multiple levels of proficiency in HOS, awarding "bronze," "silver," and "gold" certifications to individual facilities based on their improvement numbers. This allowed individual facilities to chart their progress and to feel inspired to continue. Because we audited the results facilities reported, we knew that when a facility achieved a certain designation, the change we wanted had really happened.

Our certifications also allowed us to prevent our plants from backsliding once they'd achieved a certain level of competence. We always told managers and employees that achieving bronze was the beginning of HOS at their facility, not the end. Still, we found that many plant managers became complacent after their facility had achieved bronze. In response, we instituted a procedure for removing the bronze certification from plants that began to lag. That got people's attention. Similarly, we made a practice of publicizing internally the top ten and bottom ten performers on HOS. Leaders and teams liked placing in the top ten, but they absolutely detested being publicly identified as a bottom-ten performer. This tactic helped generate a sense of urgency around HOS, raising performance across the entire organization.

FOCUS ON PROCESS

In fact, I recommend using this tactic whenever you're trying to change anything in an organization. It helped us accelerate improvement in quality, delivery, and a number of other change initiatives.



- 1** Getting ready. Leadership is ready to embark and sustain the journey
- 2** Baseline analysis and prioritize opportunities. Establish your deployment
- 3** Begin to execute your changes to create future state organization
- 4** Implement future state to achieve targeted results
- 5** Site management operating system in place to drive continuous improvement culture
- B** Integrating leadership beyond facility walls across all functions with all employees
- S** Leverage and improve operating system supporting enterprise
- G** Bringing all best practices/processes into a single focus to grow faster than competition

Structured Approach to Deployment

Our graduated framework for implementing HOS, as it had evolved by 2016

When both introducing and sustaining change, leadership matters. The organization needs to see that you personally are taking this seriously. As we rolled out HOS, I talked about its importance for our business at every opportunity. I held regular meetings to make sure we were actually implementing it and that we were getting the results—something I didn't do for Six Sigma, and a reason it underdelivered. When one of our plants was performing poorly, I would send a little note to the leadership there—"Not a fun experience" for them to receive it, Desarla remembered. Process improvement will require more of your time and other resources than you think it should. It takes time to get people past their concerns about how

they will do their jobs while implementing a new improvement initiative. But the effort is well worth it.

Change Management Checklist

When pursuing any improvement effort, be sure to do the following:

- Understand the significance of mind-set and culture. If the mind-set doesn't change, operations won't change either. In particular, be sure to get people past the mentality of "I have to do my job and this too?"
- Pilot/test an idea before full rollout.
- Roll out an initiative thoughtfully. Do it slowly enough to ensure the change sticks, but fast enough to build momentum and get as much benefit as possible.
- Make sure you have the right leaders in place to effect change. As a fellow CEO once said, "Sometimes the best course to change management is to change management."
- Resource the initiative well with people and money. All change efforts require an injection of bureaucracy.
- Make the change or initiative visible to people by implementing a reporting structure, and by personally conducting reviews and field visits.
- Have your staff attend the training program that teaches the change and attend it yourself. If you don't, leaders below you will find a reason not to attend as well.
- Look for falsification bias instead of confirmation bias to make sure the change initiative is really working.
- Create real, auditable metrics to confirm that change is happening.
- Keep at your change effort relentlessly. Just because an initiative seems to be working doesn't mean it has become part of the fabric of the organization.

PROCESS CHANGE IS FOR EVERYONE

Back in the 1980s, when I served as CFO of General Electric's Production and Engineering Division in Lynn, Massachusetts, I'd gather together a group of trainees—young people from various functions a couple of years out of school—and assign them to work on a project of importance to the business. One year some of our engineers told me it was taking us an inordinately long time—seven months—to make design changes on specific products when they were requested. When I asked engineering leaders about our design-change process, they said, "We've looked at the process fifty times already. There's no way we can do it any quicker." I wasn't convinced, so I assigned our trainees to look at the process and got an engineering leader to serve as a senior advisor. I asked trainees to take fifty specific design change requests and trace back what had happened step-by-step as those changes were processed and implemented. What exactly was going on? How could we be doing it better?

When our trainees dug into the assignment, they discovered that nobody had ever rigorously mapped out the steps in the design-change process. It did in fact take us seven months to make a design change to a product. Three of those months were spent photocopying the designs and sending those designs in snail mail back and forth between the team members involved in the design change. If you're old enough, you might remember how long it took for administrative processes to run their course in an era before email and other digital technologies. In our case, all photocopying took place at a central facility, and teams had to wait for the center to process their order for a hundred or more copies of their designs before they could be sent to relevant parties.

The trainees recommended two process changes. Instead of sending a new design to the photocopy center to have a large number of copies made, engineers should quickly get two copies made for the key decision-makers so that other steps in the process could proceed. Similarly, instead of waiting

for our extremely slow internal mail system to do its work, they should walk those two copies over to the key decision-makers themselves.

These two simple changes cut *three months* out of that seven-month design-change process. Our engineers couldn't believe it. They thought they had understood how their process worked, but in fact they hadn't. All along they had considered each core step individually and thought about how to make that step more efficient. But they hadn't thought about the *whole* process, which included connections between the core steps, as well as the external players (the mail and photocopy services) that performed those steps. A sizable part of the inefficiency lay precisely in those connections.

I relate this story for two reasons. First, process change is for teams of any size and doesn't have to roll out at the organizational level. Any group of operators can improve short-and long-term performance by investing in process improvement. If you lack the budget to develop a full-blown operating system for your team or organization, then inventory the major processes that define your work, and focus people on constantly reviewing these processes and adjusting them so that they work more efficiently and effectively. Recognizing that most processes reach across other functions, ensure that you understand the process from one end to the other. Confirm that your processes are changing by looking at simple metrics. Let's say you're seeking to enhance your four-member payroll department. If after process improvement you still need those same four people to process the same number of checks, and nobody else in the organization or company has seen any extra benefit, then your improvement effort hasn't done much good, even if the process might have marginally improved in some respects.

When analyzing processes, I've always found process maps helpful—and if you are the leader of a small team, you don't need to hire fancy consultants to create them. When I worked as an auditor for General Electric, I would create my own, informal process maps all the time to understand the operations I was trying to audit. I would begin with the person who performed the first step in the process and ask them what they did and who they sent their work to for the next step. I jotted the information down in a notebook and went on to the next person, proceeding until I had mapped out every

FOCUS ON PROCESS

step in the process. All along I asked people to tell me what would happen if a problem arose with their step. Quite often the people I interviewed would tell me about actions they would take when the process didn't work as it was supposed to, so I would map out those "exception" steps (which, by the way, are another example of what's called the "hidden factory"). By methodically creating a map in this way, I uncovered all kinds of inefficiencies teams could remedy. Bear in mind, I had zero training in process improvement at that point. But I didn't need any; it's just not that complicated.¹¹

Finding and Fixing the "Hidden Factory"

1. Map out your existing process step by step from beginning to end.
2. Map common workarounds in case of problems.
3. Optimize your process and involve end users.
4. Confirm that the new processes are more efficient *and* improve results for end users.

It's hard to believe, but many companies don't fully understand how their processes work. If you map out each step, you'll understand the "hidden factory" that has been operating all along in your facility but that your leaders and managers have overlooked. Optimize these processes and process steps, and you'll improve your short-and long-term performance. Be sure to involve end users, as we did with Functional Transformation. It's so easy for people to comply with words rather than intent—to satisfy a directive to make processes less costly, but to do so in a way that compromises on the value the process is intended to deliver. True process improvement must accomplish two seemingly conflicting things at the same time: it must make processes more efficient, but it must also make them more effective so that they deliver more value to end users, whether these are paying customers or internal ones. Our HOS-compliant plants not only were cheaper to operate; they produced goods more quickly and of higher quality, allowing us to deliver better for customers.

FOCUS ON PROCESS

Their insights, judgments, and decisions large and small, compounded over a period of years, move the organization forward.

The true magic of process improvement is that it enables an organization to evolve and stay flexible over time. When people think of Charles Darwin, they always associate him with the mantra of “survival of the fittest.” In my view, Darwin’s key point was survival of the most *flexible*. Over the history of life on earth, many species have existed that were well-adapted or “fit” to survive in a particular environment. When their environment changed, these species couldn’t adapt—they weren’t flexible enough—and they ultimately died out. In introducing HOS to our company, I wanted the entire organization—from the hourly employee on the shop floor, to managers at the plant level, to leaders in every function and business—to become more flexible so that we could adapt to changing business conditions and lead our competition.

Revolutionary change sounds good, but it’s not the optimal route to strong short-and long-term performance. If you go with revolutionary change, you’re taking a huge risk, because you can never be exactly sure what the future holds. Revolutions can move in unintended directions. An organization that is adept at constantly evolving usually won’t need to take enormous risks to bring about revolutionary change, because it’ll have been changing all along. Think of it this way: If various dimensions of your market are changing, say, 4 percent a year, that might not sound like a lot. However, if you don’t change with it, or better yet, stay slightly ahead of the change, then these changes will compound year after year. A decade down the line, you’ll be looking at an enormous gap between where you are and where your market is. Then revolutionary change, and all the risk and disruption it entails, really will be necessary just to catch up. Sometimes a revolution is required depending on the state of your business or organization, but it’s far better to keep pace with change as it occurs or to stay ahead of it, and to develop an organization that is committed to and capable of constant, incremental evolution.

When I took over at Honeywell, some people thought the company might well go extinct before too long. We managed to grow and flourish because

WINNING NOW, WINNING LATER

we challenged ourselves through HOS, process change, and cultural transformation to constantly improve what we did, and to get better at improving over time. Enhancing our processes incrementally and sustainably became part of our culture at Honeywell, informing how we ran everything about the company. If you work at it, you can make it part of your culture too.

QUESTIONS TO ASK YOURSELF

1. Are processes in your team or organization as efficient as they might be? Do you understand them fully—not just the core steps, but the links between those steps? If employee engagement isn't as high as you'd like, might inefficient processes be playing a role?
2. Do you have a system in place for constantly improving processes? How well does it work? Do you empower frontline workers to improve how work gets done?
3. Aside from your core business operations, have you worked on rendering your back-office, administrative functions more efficient? How efficient and effective are these functions really?
4. Are change initiatives “sticking” in your organization? If not, why not?
5. How much attention have you paid to pushing process improvement forward? Are you driving it daily, or are you abdicating responsibility? Are you pushing your organization to achieve small-company speed with big-company efficiency?
6. Have you structured your process improvement initiative in such a way to sustain improvement over time? Are you personally verifying that it is working?
7. Is your team or organization adept at constantly evolving, or do you cling too closely to the operational status quo?
8. Are there situations in which you might use the top ten/bottom ten technique to improve performance?
9. Are you resourcing your improvement initiatives well enough? Remember, all change efforts require an injection of bureaucracy.

Build a High-Performance Culture

When I took over as CEO, I wanted to acquaint myself with Honeywell and its culture, so I spent the first few months visiting our facilities around the world and conducting town hall events. During one such event, held at our sprawling aerospace facility in Phoenix, Arizona, a woman stood up and posed what at first seemed a rather odd question. “Dave,” she said, “are you blue or red?”

“Excuse me?” I asked. I had recently moved to the New York City area from Kentucky, where a red versus blue rivalry—the University of Louisville versus the University of Kentucky—was a big deal.

“Are you blue or red?” she said again. “AlliedSignal or Honeywell?”

Oh man, I thought, so that’s what she meant.

During the early 2000s, Honeywell’s company culture was not merely in sorry shape—it was nonexistent. AlliedSignal, an industrial firm with interests in aerospace, chemicals, and automotive products, had acquired Honeywell in 1999, with the combined company using Honeywell’s name and AlliedSignal’s corporate headquarters. In 2000, this “new” Honeywell had acquired a third company, fire alarm and security system manufacturer Pittway. Employees who had worked for Honeywell legacy businesses saw themselves as focused on technology and something called “customer delight,” which was ironic because their performance was so poor they weren’t satisfying their customers very well, much less

“delighting” them. Legacy AlliedSignal employees maintained a separate but equally dysfunctional culture focused on making quarterly commitments at all costs. I would joke that I could see Allied employees strolling into their boss’s office at the end of the quarter to say, “We can make the quarter but we have to screw the customer,” and the boss saying, “What’s your point? Make the quarter.” Honeywell’s employees were known as “red” within the company, and legacy AlliedSignal employees were “blue,” reflecting the colors with which the two organizations were branded before the merger. Legacy Pittway employees didn’t participate in the “color wars,” as it was called. Believing that the rest of the organization possessed a “big company” mentality, they ignored everyone else and ran their business as they always had.

All of this division was taking a tremendous toll on our business. Mark James, Honeywell’s senior vice president of Human Resources, Security, and Communications, first arrived at the company in 2000 as an HR director in our Aerospace division. As he recalled, the environment was “total chaos,” with “everybody doing their own thing,” and with no standard ways of operating. “The best way to describe it was if you just went and hired a bunch of people, didn’t have them talk to each other. Everyone’s in it for themselves, that’s what it felt like to me. There was no one giving guidance, no one ever did a review with me of any sort or showed up to do a business review.”¹ Not surprisingly, the company had trouble retaining top talent. Young managers came in knowing our culture was disorganized and unsupportive. They assumed they’d grin and bear it for a few years, obtain some good experience, and move on to build meaningful careers elsewhere.

When I arrived as CEO, ending the color wars and building a unified culture became one of my top priorities. Some of our executives wondered why should we spend so much time fixing our culture, given all the other strategic issues we had to deal with. If we were going to do anything, they said, we should invest in a short-term initiative to build morale. No way, I said. If morale was a problem, the best way to fix it was to build a winning, high-performance company. And that meant we needed to have a winning,

BUILD A HIGH-PERFORMANCE CULTURE

high-performance *culture*. We could make all kinds of strategic decisions, but if nobody in the company acted on them, we wouldn't make any progress.

A strong culture—one in which people feel intrinsically motivated to do well, and in which they comply with the *intent* of policies and procedures, not merely with words but with actions—is important for any organization to perform at its best. But if you're aiming for the higher bar of achieving short-term results even as you secure longer-term growth, such a culture becomes central. Unless everyone feels driven to execute, organizations might achieve one of these goals or the other, but they stand little chance of accomplishing both at the same time.

Skeptics might contend that aiming for a desired culture is pretty standard for companies today. I agree—there's nothing revolutionary about knowing a company needs a defined culture. And determining the key factors of a culture isn't rocket science. We defined our culture as underpinned by twelve key behaviors, including growth and customer focus, getting results, fostering teamwork, taking intelligent risks, being self-aware, and having a global mind-set. I used to tell my team all the time that these behaviors were not revolutionary. Nobody at Harvard would ever come down to our headquarters and exclaim, "Wow, how did you come up with *that*?" The trick was in the doing. Honeywell committed itself over many years to getting all of our people to live these behaviors (as well as five key strategic initiatives that we also defined), and we followed through on that commitment relentlessly. Our culture changed in due course, as did our performance. If you want to achieve short-and long-term growth, you have to be equally relentless. Don't just talk about culture—get busy *doing*, and never stop.

DEFINE THE CULTURE IN DETAIL

As obvious as it sounds, you should start your culture-building efforts by defining the culture you want. I had understood culture's importance during my time at General Electric, and had developed a pretty clear sense of what constituted a high-performance culture. During my second month

WINNING NOW, WINNING LATER

at Honeywell, I came up with the *five key strategic initiatives* I wanted Honeywell to focus on: growth, productivity, cash, people, and operational enablers (like Six Sigma, and later, the Honeywell Operating System). I also generated a list of ten behaviors I wanted to define our culture and held a full-day meeting with my team to discuss them. We wound up adding two more behaviors—for twelve total—while modifying some of my original ones. As some of us joked, the Lord only needed ten commandments, but trying to end the color wars and get a large organization to become a performance machine required a couple more.

The Five Initiatives

1. Growth (via customer service, globalization, and technology)
2. Productivity (went hand in hand with growth)
3. Cash (improve working capital and have high-quality earnings)
4. People (keep the best talent, organized the right way and motivated)
5. Organizational enablers (including Six Sigma, Honeywell Operating System, and Functional Transformation)

The Twelve Behaviors

1. Focus on customers and growth (serve customers well and aggressively pursue growth).
2. Lead impactfully (think like a leader and serve as a role model).
3. Get results (consistently meet any commitments that you make).
4. Make people better (encourage excellence in peers, subordinates, and/or managers).
5. Champion change (drive continuous improvement in our operations).
6. Foster teamwork and diversity (define success in terms of the entire team).
7. Adopt a global mind-set (view the business from all relevant

BUILD A HIGH-PERFORMANCE CULTURE

- perspectives, and see the world in terms of integrated value chains).
8. Take risks intelligently (recognize that we must take greater but smarter risks to generate better returns).
 9. Be self-aware (recognize your behavior and how it affects those around you).
 10. Communicate effectively (provide information to others in a timely, concise, and thoughtful way).
 11. Think in an integrative fashion (make more holistic decisions beyond your own bailiwick by applying intuition, experience, and judgment to the available data).
 12. Develop technical or functional excellence (be capable and effective in your particular area of expertise).

We didn't simply name these Twelve Behaviors—we fleshed them out in detail. It's one thing to say, "We want teamwork." But as I've often seen, people sometimes use "teamwork" as an excuse for suppressing dissenting opinions. The result: a pernicious groupthink. In defining teamwork, we made it clear that everyone on the team had to speak up freely when they had opinions; that team leaders had to ensure that everyone on the team had a chance to contribute; and that leaders ultimately had to make decisions—consensus was not the goal. In addition, team leaders had to explain their decisions so that everyone understood their rationales. Too often, people assume that if leaders don't agree with what employees said, they weren't listening. That's not true. Team leaders could listen and understand, but not agree. In these cases, people needed to know their opinions mattered, even if they didn't get their way, and leaders could ensure their people knew by explaining decisions and their underlying logic to the group. As the final step, team members then needed to support and implement the decision, even when they didn't agree. When these dynamics played out in group settings, that was teamwork as we wanted to see it.

Or consider how we defined another of our behaviors, adopting a learning mind-set. If our people wanted to advance, they had to be constantly learning. That meant reading, talking to others, listening well, and staying

WINNING NOW, WINNING LATER

updated on markets, customers, and so on. But it also meant becoming more self-aware. We wanted everyone to understand their own strengths and weaknesses better, recognizing that we all have our own issues we need to work on. Our leaders especially needed to understand how they were impacting others so that they could bolster their weak areas. I know, for instance, that I can be defensive and at times overly decisive. It's just who I am. But I needed to mitigate those reactions in order to lead people the most effectively. Others needed to uncover their own weaknesses and correct for them. If all or most people inside Honeywell did that, we'd have a much stronger, higher-performing organization.²

Once my team and I aligned around all Twelve Behaviors and their precise definitions, we branded our desired culture as One Honeywell. It wasn't an especially original name, but in our case it was quite appropriate. We had been multiple companies at war with one another, but from now on we would be unified. One Honeywell would be the glue that would keep everyone working together and our company thriving. To further strengthen this sense of togetherness, we linked One Honeywell to a company objective everyone could hold in common: a focus on serving customers. We needed to define a common objective around which people could unite. Instead of arguing about which subculture was right, One Honeywell focused all of us on doing right by our customers, and in the process, building our business.

SPREAD THE CULTURE—AND SPREAD IT SOME MORE

With our desired culture in hand, we started spreading it throughout the organization. And I mean *spreading* it. Over the next couple of years, we incorporated the behaviors into our training programs and performance evaluations, and we based compensation decisions in part on whether leaders demonstrated the culture we were seeking to build. Our appraisal forms came printed with the Twelve Behaviors, and bosses had to specify how well each of their team members was delivering on those behaviors. Likewise, during our annual management resource reviews (MRR), when

BUILD A HIGH-PERFORMANCE CULTURE

we evaluated the quality and capacities of managers down in the ranks, we specifically evaluated how well they were living the Twelve Behaviors. If we uncovered managers who weren't adopting the behaviors, and who weren't changing even after we had pointed this out to them, we let them go.

During hiring, we also started assessing candidates for whether they tended to behave according to the Twelve Behaviors. I'll talk more about how we hired and compensated leaders in the next chapter—for now, just know that cultural considerations played a big role. In my first three years as CEO, we wound up changing out about half of my staff members, replacing them with leaders who bought in strongly to One Honeywell. We also wound up hiring more leaders from inside Honeywell for key jobs. Previously, most of our leadership hires—65 percent—came from outside the company, and many within Honeywell felt this made for a more mercenary culture. It would be hard to make One Honeywell stick if we were constantly turning to newcomers for key jobs. By the time I stepped down as CEO, we were hiring about 85 percent of our leaders from inside the company. A certain number of external hires will inject new thinking into the organization, but hiring internally the vast majority of the time is vital for ensuring cultural consistency.

We attended to our culture as well when it came to personnel decisions regarding our tens of thousands of hourly employees. To succeed with the Honeywell Operating System (chapter 4), we needed factory employees who would bring a higher level of intellectual and personal engagement to their jobs. We developed a special questionnaire managers could use during hiring to ensure that incoming employees were “HOS-ready.” These questions would confront employees with theoretical situations and ask them to tell us how they would likely respond. On this basis, we obtained at least some insight into whether they would fit in with the culture we were trying to build, since the Twelve Behaviors and HOS were very closely aligned.

In retooling people processes to support the culture, we didn't just focus on the Twelve Behaviors per se, but more broadly on instilling the spirit of unity and One Honeywell. Consider MRRs. Although most companies perform them, we took our process much more seriously than the typical

company does. In addition to holding MRRs for individual businesses, I gathered my staff together each year to do a single, comprehensive MRR covering all the top management in the company across businesses and disciplines—around four hundred people in total. We discussed each of these leaders one by one. During this conversation, our functional leaders had an opportunity to comment on the performance of leaders in the business units, while our business leaders could comment on how well executives within the functional organizations were doing. This exchange broke down the silos between businesses and corporate functions that usually exist inside organizations, reinforcing the idea that we all needed to work together and were all responsible to one another. No longer could a functional leader say, “Just leave me alone to control my own organization.” Others across the organization would have a chance to weigh in—and they would take it.

We took a similar approach when designing other key events inside Honeywell. When planning our information technology systems, we didn’t just include IT professionals but also representatives from our business units. When I was reviewing a strategy during one of my growth days, I invited relevant functional players (human resources, legal, and so on) as well as business leaders. Or take our annual technology symposium, which brings together Honeywell engineers and scientists from around the world to showcase their newest, “gee-whiz” innovations. We also invited marketers from throughout Honeywell to attend. As we recognized, technological innovations don’t become commercially valuable without the injection of marketing expertise. By developing the technology symposium as an opportunity to bring both kinds of experts together, we hoped to get intellectual engagement between them happening earlier in the research and design process.

More generally, we tried at every turn to eradicate a tribal mind-set and get groups of all kinds inside our company working together. This kind of collaboration wasn’t happening under our old culture. But it was now—a critically important expression of One Honeywell. You can never organize perfectly to ensure that all potential interactions happen across functions, product lines, processes, geographies, and so on. But you can work hard to

BUILD A HIGH-PERFORMANCE CULTURE

ensure that as many people as possible get to know one another. Distrust kills cooperation, and it prevails when people are sequestered from one another. The more trust you build and the more widespread your desired culture becomes, the greater the chances that the thousands of decisions people make every day will break the way you'd like them to.

MAKE CULTURE YOUR PERSONAL MISSION

As important as it is to enmesh your desired culture into processes and structures, you also have to communicate it personally. Many leaders know this, but they don't always work as intensely as they should to highlight the culture for employees and managers. Given how dysfunctional our existing culture was, we knew we couldn't just make a few process changes and call it a day. We had to stick with the culture and relentlessly drive it into people's brains, month after month. Throughout my tenure, I probably devoted about a quarter of my time to our culture and to ensuring that we hired and retained people who would bring One Honeywell to life. I talked about our culture constantly across Honeywell, and attended every training session at headquarters I could to reinforce our culture—probably two or three a month.

Recognizing how important it was to get other leaders on board, we turned to our annual senior leadership meeting as an opportunity to talk about high performance and the culture that would deliver it. Previously, our leadership meeting was a one-day event, held in the cafeteria of our headquarters building to keep costs down. Not terribly inspiring, and as a result nobody really cared all that much about attending. Beginning in 2003, we revamped the meeting, holding it in a desirable location, making it a three-day event, and inviting only three hundred carefully selected leaders. It became a privilege to attend, a perk we could dangle to reward leaders for strong performance. In line with our One Honeywell mentality, we made attendees at the event as diverse as possible, inviting leaders from around the world and from all of our business units, and also paying attention to

WINNING NOW, WINNING LATER

racial and gender representation. We designed gatherings at the event so that leaders had a chance to meet people in different geographies or parts of the business (through random seating, for instance) with whom they might otherwise not interact. Only on the last day did leaders meet with others in their specific business, but even then we had corporate leaders attend, allowing us to forge deeper connections between our businesses and headquarters. Everybody needed to understand that they were in it together, and as the years passed, our annual leadership meeting emerged as an important catalyst to grow that understanding.

Formal events like these set the tone, but the real work of instilling the culture takes place on a daily basis. At every turn, and in a multitude of ways, my leadership team and I underlined that the Twelve Behaviors were not only mandatory but critical to our success. Sometimes, such as at our training programs, we talked explicitly about these behaviors. More often we let our own behavior do the talking. Acculturation doesn't occur because people rationally imbibe information that's thrown at them. They do it because they see principles or ideas in action. Our job as leaders, then, was to remain ever mindful of our behavior and whether it accorded with the Twelve Behaviors. We also had to stay on the lookout for occasions in which our people were making decisions inconsistent with our culture and take steps to correct them.

THE DAY OUR CULTURE SAVED US \$25 MILLION

Remember our learning mind-set behavior and its emphasis on self-awareness? In 2014, we had an opportunity to sell an underperforming business of ours called Friction Materials. Although we would be selling at a \$50 million loss, the business had consistently operated at a loss, so it would be worth it to get it off of our books. We held a long meeting in which we reviewed the potential deal in great detail. At the end, I gave the deal my blessing, emphasizing it was only a preliminary decision, since we didn't need to deliver a final decision to the buyer for a few days.

BUILD A HIGH-PERFORMANCE CULTURE

Ordinarily I might have left the decision at that. But mindful of my own tendency to come to decisions too quickly, I wanted to use those remaining few days to continue to think through the deal. I organized another meeting of our group on the day the decision was due. Because I was in China, we had to hold this meeting via conference call late at night my time. Others on the team didn't like it. We'd been through the deal exhaustively once. Why did we have to do it again? But we did—and good thing, because I learned about some nuances in the numbers that hadn't been explained before. As a result, the deal we were about to sign was significantly worse for us than it had seemed just three days earlier—we would be losing about \$75 million, not \$50 million. I wound up deciding to back out of the deal, to the great consternation of many on the phone who thought we'd never get another chance to sell the business.

It turns out we did. Just a few months later we sold Friction Materials to the same buyers at a loss of \$50 million. Because I had been mindful of my weaknesses, I had been able to correct for them and save \$25 million. Because other leaders had witnessed me behaving in a self-aware manner, even at the risk of making an unpopular decision, I'd like to think they were more inclined to do so as well, thus reinforcing our culture. In the aftermath of the deal, I was able to use it as an example in our trainings and in informal conversations to help employees and managers better understand our desired behavior of adopting a learning mind-set.

SUPPORTING OUR OWN BUSINESSES

In many other instances, we made decisions with an eye toward spreading a general respect for One Honeywell. At the outset of our cultural transformation, a number of our businesses would buy goods from other companies, even when other Honeywell businesses made the exact same goods with competitive prices and quality. When I confronted leaders about this and asked them to buy Honeywell goods, they would brush me off, saying, "Well, our stuff doesn't work as well." I would push them for the specifics. When

we dug into it, we usually found that leaders had no good reason for buying from competitors. As I would observe, people would rather fight with their brother or sister than with the family next door. I made it clear: If Honeywell made a competing product, our businesses needed to look seriously at it to see if they could use it. If our product wasn't suitable, they needed to speak to the Honeywell business that manufactured it to explore what they could do to the product so that it was competitive. Chances were, that conversation would lead to changes rendering the Honeywell product more competitive with external customers as well as internal ones.

Seeing a real opportunity here to improve both our culture and our businesses, we audited our businesses to track down situations in which we could be buying goods internally but weren't. We found many instances, some of them small (we were buying safety equipment from competitors instead of using our own), others quite large (our chemical plants weren't using our own world-class technology in process controls to manage processes). I put Mark James, who was running our sourcing in addition to Human Resources, in charge of ensuring more internal commerce between Honeywell businesses. To overcome internal resistance, I intervened in extreme situations, sending the organization an unequivocal message: One Honeywell mattered. It was simply the way we did business.

In one memorable episode, Mark came to me and told me how our Performance Materials and Technologies business was building a big plant and didn't want to use a gas flare manufactured by Callidus, a business within Honeywell that made environmental-and combustion-related technologies. I called a meeting with the business and manufacturing leaders of Performance Materials and asked them to explain the problem to me. They claimed Callidus gas flares didn't meet their needs all that well, and in any case, they had signed a contract with one of our competitors that prevented them from using Callidus gas flares. That sounded odd, so I asked them to double-check that this was true. They got angry with me, accusing me of meddling too much with details that were their purview.

Undeterred, I called the member of our legal team who had been

advising them and asked him if Performance Materials had a contract that prohibited them from using our product. “Well, not really,” he said.

“What?”

“Yeah, the business manager came over to me and said, ‘We don’t want to use Honeywell equipment; we want to use an outside vendor.’ Can you give us an excuse or a reason so we don’t have to? So that’s what I did.”

Oh man.

After calling the Performance Materials business leaders back in, I told them their general management and project management folks as well as representatives from Callidus were going to come in first thing in the morning and huddle together in a conference room to pore through every aspect of the situation, exploring if there was any way Performance Materials could use the Callidus product in their new plant. Using the technique described in chapter 1, we’d get everyone together at one time to sort out an issue, not leaving until it was resolved. If what Callidus made simply wasn’t adequate, we needed to understand exactly why. Our general counsel would assign an attorney to the meeting who understood our agreement with the competitor and could ensure that we didn’t make a decision or disclose information that violated our contractual obligations. I would kick off the meeting with our general counsel and then return at the end of the day to gauge progress.

When I left the group in the morning, you could feel the hostility in the room—Performance Materials leaders resented my interference. Later that afternoon, when I returned, I didn’t know what I’d find. To my surprise, everyone was smiling. As our Performance Materials people related, they had been pleased to learn more about the technical capabilities that Callidus had at its disposal—they had had no idea. It turned out Callidus equipment would work out great for them. They had agreed to purchase it, and our attorney had confirmed that a purchase would not violate their contract with the outside supplier. This represented tens of millions of dollars of additional sales for Callidus. It also represented a huge teaching moment regarding our culture. Everyone in the room got it: One Honeywell meant something.

It would have been easy for me to walk away from this situation and let

WINNING NOW, WINNING LATER

Performance Materials make its own decision. If I had, no cultural change would have occurred. It was critically important for us to look out for instances in which we weren't living up to our culture and publicly remedy them. As others learned of these situations, they would change their own behavior to conform to the spirit of One Honeywell. In the aftermath of this issue with Performance Materials and Callidus, I referenced this story again and again to make the point that One Honeywell mattered and that it needed to inform how we all did business.

ONE HONEYWELL—EVERYWHERE

I never stopped calling out decisions or practices inconsistent with our culture. It happened so often that I developed a way of referring to it. "Well, that's not a very One Honeywell approach, is it?" I'd say. Sometimes a phone call or a decision at a meeting was all it took; sometimes a quick comment directing someone to consult another Honeywell leader to help solve a problem they were encountering did the trick. Other times we had to pay sustained attention over months or years.

When I first arrived at Honeywell, our business leaders in Europe were so disconnected from one another that they barely knew one another's names. At one European town hall event, I asked the two hundred people present to raise their hands to indicate which Honeywell business unit they were a part of. As I called out the different business units, a group of five or six people hadn't raised their hands. I asked them, "What business are you with?" They said they worked in our fire products business (part of our Automated and Control Solutions unit, or ACS). "Why didn't you raise your hand when I mentioned ACS?" I asked. They replied that they didn't know they were part of ACS. Think about that for a moment. These people were key employees, and they didn't have the slightest clue how their business fit organizationally into the rest of Honeywell.

As disconnected as our European businesses were from one another, they were even more disconnected from corporate. During my first trip to

BUILD A HIGH-PERFORMANCE CULTURE

Europe, out of seventeen European leaders, only ten showed up to a meeting I convened. The seven no-shows never even bothered to explain their absence. I reconvened the meeting again six weeks later, making it clear to my business leaders that I expected everyone to be there. When I asked why some of them hadn't come the first time, they told me directly that they felt they were wasting their time meeting with me—they would be better off using that time to call on customers. Excuse me? I took a deep breath and refrained from yelling and screaming. "That's one way of looking at it," I said. "I'm all in favor of spending time with customers. But all I'm asking is that you spend a few hours with me and our other leaders in Europe so that we can create a One Honeywell culture. I want you guys to help one another out instead of operating in isolation."

Most of the leaders got the message but we had to let go of certain leaders who just wouldn't warm up to the One Honeywell concept. I also began traveling to Europe twice a year for similar meetings of our European leaders, using this time to receive updates about their businesses and prompt them to engage with one another. In addition to asking for formal presentations from business leaders, I facilitated free-flowing conversations so that everyone could participate and begin to feel more comfortable in one another's presence. I also took the opportunity to go on customer visits with them, which they came to regard as helpful to their businesses. Gradually, the leaders warmed up to these meetings, and about four or five years later a One Honeywell mentality had taken hold to such an extent and leaders had built up so much rapport that they began to hold quarterly meetings on their own.

More generally, my leadership team and I fostered a sense of cultural unity throughout the company by traveling incessantly. My predecessors hadn't traveled very much, but I felt the personal presence of our corporate leadership was necessary if One Honeywell would ever take hold company-wide (it would also prove important to our globalization strategy, covered in chapter 7). Some of our business leaders disagreed, complaining about the hassles of constant travel on commercial jets. To encourage everyone to get out more, I decided to purchase two Gulfstream 550 jets for our leadership.

WINNING NOW, WINNING LATER

These planes were very nice and designed for intercontinental travel. While some observers might have thought this an extravagance, I saw it as a small price to pay for the cultural benefits we'd reap if our leaders had more frequent contact with far-flung offices, plants, and customers. Our leaders would function as cultural ambassadors, transmitting the Twelve Behaviors far more effectively than a company-wide email would ever do. And that's to say nothing of the business benefits we'd reap thanks to the exposure our leaders would have to conditions on the front lines. It's important for employees everywhere to know that their leaders know what they do is important. The best way leaders can ensure this is by showing up!

With our new planes, our leaders had no excuses—they had to get out there. And get out there they did. Although I don't have hard numbers, I have to think that the time our senior executives spent traveling was ten times more than the time their predecessors had taken. I myself spent between five and six hundred hours a year on the plane—that's about twenty to twenty-five days a year at twenty-four hours a day. Members of my executive team logged about three to four hundred hours each. Was it tiring? Absolutely. But building our culture was *that* important.

DON'T LET YOUR CULTURE LIMIT YOU

In driving for cultural change, it's a mistake to become overly constrained by your desired culture as you've defined it. Are there any other, related behaviors, values, or principles that support high performance than the ones you've formally adopted? If so, don't hesitate to push these as well.

Timeliness wasn't one of our Twelve Behaviors, but an organization in which meetings start late and research and development teams miss deadlines probably isn't going to be that great making and shipping goods to customers on time either. In other organizations I've worked in, late meetings tended to have a ripple effect across the organizations, preventing other meetings from taking place as planned and causing all kinds of operational chaos. People were constantly rescheduling everything—a huge waste of

time and energy. Leaders would waste their time showing up at meetings in which other relevant actors weren't present. If nothing else, timeliness is a basic sign of respect, a recognition that other people's time is as important as yours. Just because we didn't include it as a thirteenth behavior didn't mean timeliness wasn't important.

Throughout my tenure, I insisted that deadlines were kept and that meetings started and ended when planned—period. Regarding the latter, if leaders were unsure how long a particular piece of business would take, they were to schedule more time than they needed, then give everyone their time back if they had overestimated. Strict meeting times also produced better meetings. Because leaders knew time was limited, they tended to include executive summaries that got to the essence of the matter at hand. In writing these summaries, leaders were challenged to distill their thinking down to a few key ideas, simplifying them for others in attendance. It became easier to use our precious time to debate questions that really mattered.

Another concept that wasn't reflected in the Twelve Behaviors but that we pushed extraordinarily hard was integrity. To perform well in the short and long term, we needed to build trusting relationships with customers, investors, suppliers, employees, governments, the communities in which we operated—really, with whomever we dealt with. That meant adopting metrics that accurately measured the reality of our performance (chapter 1) and adopting more transparency in our accounting practices, which as we saw in chapter 2 also enhanced our strategic planning. It meant keeping the promises we had made to local communities to clean up and rehabilitate contaminated sites, and also making sure that our operations were environmentally sound and energy efficient so that they lived up to the benefits our energy efficient products purported to deliver (chapter 3). Critically, it also meant complying with the applicable laws in all the countries in which we operated. Every year at our annual senior leadership meeting, I confirmed in no uncertain terms the importance of compliance, pointing out that we would never defend employees, managers, or leaders who broke the law, and that in fact we would actively prosecute them.

When it came time to keep this last promise, I'm happy to say we rose

WINNING NOW, WINNING LATER

to the occasion. In one instance, a customer in the Middle East flew all the way to Phoenix, Arizona, to tell us in person that one of our sales leaders in the region had been behaving corruptly. We looked into it and found that our customer was right. Some of our senior leaders wanted to deal with this issue discreetly, but I refused. If this one sales leader had been unscrupulous, others in our regional businesses probably knew about it but hadn't said anything. We needed to openly reinforce just how anathema corruption of any kind was to our organization and to our One Honeywell culture.

We wound up prosecuting the Honeywell leader, and we also sent one of our attorneys to the Middle East to hold town hall meetings with our businesses there, inform them of what had happened, and make it clear we wouldn't tolerate similar transgressions. As it turned out, our public handling of this affair didn't tarnish our image, as some leaders had feared—quite the contrary. A couple of months later, while traveling in the region, one of our salesmen told me that more customers now wanted to do business with us because they could trust that we were a “clean” company.

GET REAL ABOUT YOUR CULTURE

Whether you lead a large organization or a small team or business unit, take a closer look at your culture. Most likely you've put words on a page defining the kind of behaviors, attitudes, and general work environment you seek, and you've made at least some effort to spread the culture. But have you really pushed it as hard and consistently as you might? Have you prioritized it and stuck with it? And have you personally acted in accord with your culture?

So much rests on your personal commitment as leader to the culture. Talk about the culture so often that you're sick of repeating the same message—and then talk about it some more. You simply can't repeat it enough. Others in your organization might not get this—if so, educate them. I first introduced our Five Initiatives in March of 2002. At the end of that year, our then-global communications leader, Tom Buckmaster, came to me

and asked what our initiatives for 2003 would be—he wanted to get a jump on communicating them to the organization. “What do you mean?” I asked.

“Well, we always have initiatives, and I need to get our posters up, and I want to make sure we’re ahead of schedule this coming year.”

“Let me ask you something,” I said. “These five initiatives—do you think we’re done with them? Have we completed them?”

His face reddened. “Um, well, I guess not.”

“So why change them?”

“I guess we shouldn’t.”

We never did change them throughout my tenure, nor did we change the Twelve Behaviors. Organizations need consistency. They need predictability. And they need repetition. When I interviewed him, Mark James likened me to a “big annoying bear” who came into the woods demanding cultural change. At first, he said, people just wanted to chase me away and stop me from eating the livestock. When I kept showing up, they realized they had to live with me, so they changed their own behavior. Over time, as they came to see the bear as part of their community, they came to accept the Twelve Behaviors as their own. Cultural change was a gradual process that only happened because I insisted on it, as did members of my leadership team. We were all in—and you need to be too.

As I found, town halls were a great opportunity for socializing the culture. Be straightforward when you speak to groups of employees, and don’t just do the usual “feel good” speeches. When employees at a given plant asked me what future lay in store for their facility, I told them flat out that it depended on them more than me. If they did a great job for customers and stayed so productive that it didn’t make economic sense for us to move the facility, then the plant would operate for a long time. On one occasion, a union leader took me to task at a town hall meeting for my compensation. I responded by saying I wouldn’t have left my previous company if Honeywell hadn’t compensated me as they had, and by the way, I wasn’t going to give any of it back. The union leader laughed and said that he wouldn’t either, and the audience laughed too. People can handle the truth, and when you

give it to them, they become more receptive to what you have to say about the culture.

Of course, going all in as a leader isn't just about talking about the culture. Devise forcing mechanisms that hold people accountable for embracing it. Peg compensation and promotions to adherence to the culture. And if you uncover practices or decisions inconsistent with your desired culture, demand change and then check back to make sure those changes have really happened. People at all levels need to see that you're permanently focused on culture. As Mark James noted, "You have to hit people in their pocketbook so that it means something to them and forces them to pay attention."³

IMPROVE EXISTING PROCESSES AND PRACTICES

When institutionalizing the culture, don't just graft it blithely onto existing processes or practices. Go deeper and question whether those processes or practices themselves need improvement. In 2002, our general counsel asked me to approve an updated version of our code of conduct. Minimal changes had been made, I was told, and I should just sign it so our legal department could get it out to the company. Opting for a less perfunctory approach, I spent four months going through every word to make sure it made sense and wasn't just a high-minded but ultimately meaningless document. We made numerous changes so that the document truly comported with how we wanted people to behave when faced with real-world dilemmas. We put ourselves in the positions our employees would find themselves in during the course of doing business and offered guidance as to the conduct we expected of them.

As an example, we had a zero-tolerance policy in place forbidding employees from receiving anything as a gift, even something as small as a cup of coffee. If one of our buyers visited with a supplier and had a cup of coffee, we expected that buyer to pay for it. Sounds good, but it's not terribly realistic. We were trying to build strong relationships with suppliers, and this policy put buyers in the uncomfortable position of either potentially

insulting the supplier by implying that he or she was trying to buy a relationship with Honeywell, or ignoring the code of conduct, implying the code was flexible. The policy also insulted our buyers, suggesting they could be easily influenced in a business deal by something as insignificant as a cup of coffee. The policy put me in a difficult position too, as I frequently had to accept gifts from customers in Asia so as not to insult them. If it was okay for me to accept these gifts because I was the CEO, what kind of message did that send?

Recognizing the limitations of our existing policy, we changed it to a so-called “sunshine” policy, allowing employees to accept a gift as long as they disclosed it to their boss. The message I wanted to send was that we expected our buyers to use their own judgment and not just adhere mindlessly to a given rule. They needed to be able to understand the difference between accepting dinner in the course of cultivating a business relationship and accepting a new roof on their house so that our suppliers obtained some advantage in a negotiation. We wanted a culture where people thought about the situations in which they found themselves and exercised good judgment. Our new code of conduct had to reflect that. In this instance and in many others, it did.

Another area in which we questioned existing practices or policies so that they accorded better with our culture was in our training programs. We incorporated the Twelve Behaviors into our courses, but we also realized that we needed to revitalize our training in general. That need came home to me one day early in my tenure when I was visiting our training center for a meeting. I popped my head into a class in process, said hello—you know, the friendly new CEO kind of thing—and asked a few questions. Attendees were perplexed by my questions and didn’t seem to know who I was. There was a reason for that: they weren’t Honeywell employees. Another company was using our space for their training program. Although we had a first-class training center, we were using it so infrequently that our people were renting it out to offset our costs!

We expanded and revamped our course offerings, and our leadership team and I paid close attention to what we taught and who did the

teaching. I made a practice of spending at least an hour with many training classes so that students could hear directly from me what we were trying to accomplish. Normally, Human Resources handles this kind of thing, but culture was so important I wanted to ensure it was reflected in everything we taught. Because we were personally involved, we wound up taking our training in house instead of hiring outside experts to design and deliver it. Early on, we sought to create a marketing training program, and so hired a leading academic business program to design a curriculum for us. Before rolling it out to a thousand employees, I wanted to confirm it was teaching the right concepts and practices, so my staff and I went through it ourselves for three days. To our dismay, the curriculum didn't come close to conveying the subject matter the way we wanted it to. So we created a marketing training program ourselves, using our own business and functional leaders as instructors whenever possible. From then on, we never rolled out a training program that my staff and I hadn't first participated in ourselves. Sometimes a program was completely canceled, sometimes just modified, as a result of our participation and evaluation.

Likewise, when we changed our performance appraisals to include measures on the Twelve Behaviors, we also tightened up the appraisal process itself to make it more rigorous. We set up checks in the system to ensure that employees agreed they'd had a robust appraisal discussion. And we instituted a one-over-one appraisal approval (in which a boss's boss had to approve the appraisal before discussion with the employee occurred) to increase the chances an appraisal was accurate and helpful. We also determined to discuss salary changes during the appraisal process. Previously, employees might have received an appraisal and then waited four months to learn whether their salary would increase and by how much. The salary action seemed disconnected from their performance. We wanted compensation decisions to reinforce the message of the appraisal so that people would take the appraisal more seriously and, if necessary, change their behavior. Some HR leaders maintain it is self-defeating to talk salary at an appraisal. In my view, you want the salary action to reinforce the appraisal message (something that, thanks to human nature, doesn't always happen). My stated

message to employees was if you get a great appraisal and a low or zero salary action, believe the salary action. That's the way the world works.

TALENT AND CULTURE—FIND THE RIGHT BALANCE

A final piece of advice: make talent decisions in ways that support the culture without acting too aggressively. In organizations, too much change too quickly can leave people reeling. Although I did wind up changing many of our top leaders in an effort to build a high-performance culture, I tried to balance the need for change with the need for stability. You should do the same. Push change as fast as possible, but not so fast that the changes fail to take root. The same reasoning that caused us to proceed slowly with the Honeywell Operating System and to refrain from implementing major cross-company restructuring actions applies here. Go slow to go fast.

It's also important to mobilize hiring as a means of building the culture you want. During my second year as CEO, I wanted our leaders in China to increase their census by 50 percent, hiring five hundred people. Leaders there maintained it would be impossible for them to hire people who behaved consistently with Honeywell values because those values didn't comport in certain respects with Chinese culture. I didn't accept this answer. "How many people are there in China?" I asked them.

The response: 1.3 billion.

"Do all of those people think alike?" I asked.

"No," our leaders said.

"Is there a chance that there are five hundred people among these 1.3 billion who think like we do?"

"Yes," they told me.

"Well, find those people!"

They did, and today we have a thriving business in China with thirteen thousand employees and only seventy-five expats. It's not just possible but necessary to hire for the culture you want, no matter the nature of your business, the size of your workforce, or where in the world you operate.

CULTURE COUNTS

Cultural change was never finished at Honeywell, but we didn't have to wait fifteen years to see change. After just two or three years, people started to put the color wars aside, coming together around the customer and the Five Initiatives and internalizing the Twelve Behaviors. Strolling the hallways at corporate and walking around our plants, we would hear people using "One Honeywell" in conversations: "Oh, that approach is very One Honeywell," they'd say. Decisions our leaders made reflected our desired behaviors more often than they had before. Our people were beginning to collaborate more and help out one another, without my team and me having to force the issue. In any given organization, thousands of decisions get made every day, and leaders can't participate in all of them. With a robust performance culture in place, you stand a much greater chance that people will make decisions the way you wish they would. Culture doesn't merely yield results but helps sustain them.

There did come a moment when I knew for sure One Honeywell had stuck and we had become a profoundly different company. During the spring of 2009, we were in the depths of the Great Recession, and despite having prepared our business for tough times (chapter 9), our leadership team and I had to make some serious cuts. Eager to avoid layoffs except as a last resort, I thought our best option was to reduce our 401(k) match. Nobody around the table wanted to do it, but as I told my team, we had no good options before us. We needed to do what was best for employees and continue to do a great job for customers, but we also had to honor our commitment to investors. "This is the best I've been able to come up with," I said, "but I'm open to other suggestions." I also told them I wouldn't be taking a bonus that year. We were performing well compared with our peers during the recession, and I was working harder than ever, but I felt that if I was asking our people to make sacrifices, they needed to see that their CEO was making them too.

Eager to determine whether my proposed course of action really was best for the company, I broke the team into three groups, and asked each

one to go away for a couple of hours, work through our finances, and brainstorm other possible solutions (a great technique, by the way, for avoiding groupthink). They did. When we reconvened, each group independently came to the same solution: we needed to cut our 401(k) match. It really was the best of bad options. And then our leaders said something that brought tears to my eyes—and trust me, I don't tear easily. They told me they had each independently decided that they would volunteer to take a zero bonus too. They believed in our company, they said, and wanted to show solidarity with our people. When I heard that, I knew One Honeywell was real. In the old Honeywell, nobody would have volunteered to take a zero bonus. It just wouldn't have happened. We had succeeded in building an organization that people believed in and would sacrifice for. It wasn't just about "me" anymore. It was about *us*.

Such a change sounds nice enough, but skeptics might wonder how important it truly was from a business standpoint. Did One Honeywell drive our short- and long-term performance to an extent that justified all of the time and effort my team and I invested?

To illustrate the impact One Honeywell has had on our business, I'll leave you with a story. In 2008, Honeywell acquired a company called Metrologic, which made scanning technology. Under the terms of our contract, the CEO of Metrologic was required to run the business for a year as a Honeywell employee. After that, he could go on to pursue other jobs or ventures. We liked this leader and wanted him to stay, but we knew that wasn't likely. Having worked previously at General Electric and Ingersoll Rand, he had little desire to work for a massive company again and was annoyed that we had tied him down for a year.

For the first month or so on the job, he essentially phoned it in, doing the bare minimum. After that, he decided to put in more effort—if he had to be there, he might as well contribute. Over the next several months, as he interacted with others at Honeywell, he found he liked the organization more than he ever thought he would. He had expected a hard-edged culture in which everyone was in it for themselves and playing politics, and in which corporate and individual businesses were at odds. What he found was a place

WINNING NOW, WINNING LATER

where everyone focused on serving our customers and making smart short- and long-term decisions, and where corporate and the businesses worked together with little in the way of politics. As he later told me, “I started to believe that Honeywell was a culture where performance was recognized. It wasn’t who you were friends with that counted. It was if you could deliver. A lot of companies say they’re about performance and meritocracy, but that’s not how things really work. Because they did work that way at Honeywell, I started really enjoying my job.”⁴

This leader, Darius Adamczyk, decided to stay, and was soon promoted to bigger jobs on account of his performance. Today he is our very successful, award-winning chairman and CEO.

Culture is notoriously difficult to quantify, but there is no way we would have turned the company around and delivered the short- and long-term performance we did had we not developed and consistently pushed One Honeywell. Sustained performance originates in a strong culture. Ours has allowed us to retain and cultivate the world’s best leadership talent, and it continues to make the company a great place to work for our 130,000 employees. Binding the company together, our culture forms the bedrock for our continued growth.

You can build a strong, high-performance culture too, but you need to get past the idea that you’re already “doing” culture. Whatever you think you might be doing, redouble your efforts. Drive the culture at every opportunity. Revise your calendar to carve out more time for culture building. Make every decision with your culture in mind. When an opportunity arises to take a stand and make a point about the culture, buckle up and do it, even if it might seem irritating and a waste of time. In short, promote the culture as if your company’s future depended on it. Because it does.

QUESTIONS TO ASK YOURSELF

1. How strong is your culture really? Do employees, managers, and leaders really believe in it, or do they just pay lip service? Are they

BUILD A HIGH-PERFORMANCE CULTURE

- committed to the organization, or does unmitigated self-interest reign? Is your culture really driving the performance you want?
2. If you have a long-established culture, is it still working for you? Are certain behaviors or attitudes missing in your definition?
 3. Ethics must factor into your definition of your culture. Stay alert to any conversations that begin with someone saying, “Look, I can say this because no lawyers are here . . .” Stop the conversation right there. Get the lawyers in and then discuss it.
 4. How much time do you personally spend on culture-building activities? Are you driving it home on a daily basis—in meetings, in casual conversations, in your decision-making, and at formal events? Has your own commitment to culture lagged over time? Do you take every opportunity, even if it seems like a waste of time, to reinforce your needed culture?
 5. Have you embedded culture as fully as you might in organizational practices such as hiring, firing, performance evaluations, and training?
 6. How strong are your underlying “people processes”? Do any of them need revamping in order to better deliver the culture?
 7. Are you paying too much attention to external candidates when filling key posts?
 8. If you have been doggedly building your culture, are there some additional, supportive values or concepts that you might also emphasize for your workforce?
 9. If you lead a larger company, are you and other leaders getting out of headquarters enough to promote the culture on the front lines?
 10. Does your code of conduct (or other company documents) reflect the real world in which you and your employees operate? Do you personally comply with everything in these documents, or are they just a bunch of high-minded but ultimately meaningless statements?
 11. When deliberating over a tough issue, do you ever break your group into several, smaller groups to avoid groupthink?

Get and Keep the Right Leaders— But Not Too Many of Them

One Monday evening in October 2009, about seven years into my tenure, the president of our Aerospace division dropped an unwelcome surprise on me over dinner: he was resigning in two weeks to join a hot, young start-up in the solar panel industry. He loved Honeywell, he said, but he wanted to work at a company that was smaller, nimbler, and more flexible. And that wasn't all. "Oh, you're not going to believe this, Dave," he said, "but on my way over to the restaurant, our CFO told me he's resigning as well and taking a job elsewhere." So there I was, with two top leaders in our biggest business set to depart. What would we do? How would we manage this transition so that it didn't disrupt our operations? And how would we explain it externally so that investors didn't interpret these departures as evidence of a bigger problem rather than the coincidence that it was?

I called our corporate Human Resources head that night and got straight to the point. "Look," I said, "we've got to move. You've got forty-eight hours. I want to be able to announce on Wednesday that these two are leaving and I want to identify their replacements."

"That's impossible," he said. "We can't get the new leaders in that quickly. We've got to interview the internal candidates for these positions,

do the same to fill the positions they would be leaving, and so on down the line.”

“Make it happen,” I said.

We did make it happen. By noon on Wednesday, we had drafted announcements that named the two departing leaders as well as the promotions we were granting to fill positions two levels below them. But we couldn’t publicize these announcements yet because our departing president’s new company hadn’t completed their internal reviews. I called this departing president and asked if he could help get his company to move faster. As I put it to him, “Would you mind telling your new company—the smaller, more nimble guys—that the big, old dinosaur Honeywell is ready to proceed and that they need to get their act together?”

We could move so quickly because we took succession planning seriously. Most companies have succession plans for their leadership ranks, but it devolves into a rote exercise, and the organization lacks a clear sense of who will fill key roles in case of departure. It’s another instance of what I call “compliance with words rather than compliance with intent.” We put deep thought into our succession planning, identifying who we really would put into a job if its occupant left. As a result, we never required more than a couple of days to name a successor when high-level executives departed. That helped us avoid the period of ambiguity that departures commonly trigger, as well as the resulting disruption. We created an impression of continuity and stability—“The king is dead. Long live the king!”

It’s critically important to make leadership transitions rapid and seamless. In the month or two (or longer) it might take to fill a key role, and then the month or longer it takes for a new leader to get settled, organizations typically stagnate. Nobody works all that hard, so short-term goals suffer and long-term initiatives that had been steaming ahead lose momentum. Although leaders often regard such stagnation as inevitable, a fact of life inside organizations, it really isn’t. To avoid the hit to performance, prepare far in advance so that you don’t miss a beat when someone leaves.

If you want to perform well over both the short and long term, pay close attention to executive leadership in general. As much as you might invest

GET AND KEEP THE RIGHT LEADERS—BUT NOT TOO MANY OF THEM

in areas like culture, process transformation, and mergers and acquisitions, you'll only make progress if you have talented senior leaders who are both committed to the company's strategies and capable of executing on them. Having the right *number* of those leaders matters too. Remember the maxim presented in chapter 1: keep fixed costs constant while increasing sales. Just as you're pushing for more efficiency throughout the organization via process change, so you can keep your organization increasingly slender and nimble as you grow by maintaining a leadership corps that is relatively small and stable but that punches far above its weight. Enhance the quality of leaders rather than their sheer quantity, and you'll increase your organization's ability to adapt, compete, and perform over *every* time frame.

TIGHTEN UP TALENT MANAGEMENT

You might think improving leadership quality is pretty simple: just fire all of your weak, underperforming leaders and replace them with better people. You can probably enhance your leadership cadre with this approach, but in the process you'll disrupt the organization by forcing too much change all at once. As I mentioned in the last chapter, we transitioned out several top leaders during my first few years at Honeywell, but it wasn't a radical house-cleaning. We tried to keep as many existing leaders in place as possible to maintain a sense of stability and to allow our organization the time it needed to absorb the effects of these transitions.

Gradual change has always seemed sound to me as a management principle, but it was absolutely essential for us when it came to personnel matters. As you'll recall from the introduction, Honeywell was in disarray when I arrived thanks to our failed merger with General Electric. For about a year, while the two companies awaited regulatory approval for the deal, leaders at General Electric informally ran Honeywell, even though they didn't yet own it. The result was chaos. General Electric told entire parts of our business that they would be eliminated through restructuring once the deal went through. As a result, huge swaths of our middle management and senior

leadership corps ran for the exits. Many of those who stayed were bidding their time, waiting for the deal to go through so that they could get a big payoff but contributing only lackluster performance. Once the deal failed to materialize, the company remained adrift under the stewardship of a temporary CEO, with no clear strategy. In addition, the company was beset by cultural warfare, as described in chapter 5. In this context, about a quarter of our leadership positions were unfilled when I arrived. My goal was to bring stability as well as change. The last thing we needed was more shocks to our system in the form of a wholesale replacement of our leadership ranks. Many investors didn't see it this way; they wondered why I wasn't bringing in a new leadership team, and suspected that either I didn't have the chops to do my job or that other talented leaders didn't want to work for me. I knew otherwise. We desperately needed to improve the quality of our leadership, but we would do it gradually.

The good news was that improvements in leadership quality didn't require sweeping gestures. As we found, tightening up our people processes so that they actually worked went a long way. I described some of the changes we made to our management resource review (MRR) in the last chapter, including an annual meeting I held with my staff in which we exchanged views on our company's top four hundred leaders. The more fundamental change we made was to enhance the intensity and rigor of MRRs generally. When I arrived, leaders were going through the motions of completing MRRs, but as with our strategic planning and our accounting, it wasn't a meaningful process. If you inquired about the people slotted for particular roles, posing questions like, "Would you really put this person in the job today if so-and-so left?" leaders would shrug and say, "Well, no." Not only didn't we have a deep talent bench—we were fooling ourselves into thinking we did.

We made it clear that such a lackadaisical attitude wouldn't suffice any longer. During the first couple of years, we made leaders redo their MRRs, and then redo them again, until they either had people in place whom they *would* like to see in each position, or acknowledged the gap by leaving the form blank. I met with leaders of our individual businesses twice annually

GET AND KEEP THE RIGHT LEADERS—BUT NOT TOO MANY OF THEM

to review their MRRs, in addition to our big annual meeting. This greater frequency prompted leaders to pay closer attention throughout the year than they had been to succession planning and leadership development.

When conducting MRRs, we also spent considerable time discussing our strategic plans and the leadership capabilities we needed to execute them, debating which jobs we would give to top performers in order to help them along in their careers. We created personal development plans, assigning these high-prospect leaders, who numbered about two dozen, mentors from my staff, including me. At one point one of my mentees was Darius Adamczyk, my successor as CEO.

MAKE PERFORMANCE REVIEWS MEANINGFUL

We also tightened up the regular performance reviews that fed into our MRR reviews, sending the message that *performance mattered*. Previously, appraisals had been loose and “new agey”: the person being evaluated wrote their own appraisal, which their boss then edited and approved. Ridiculous! We mandated that bosses do the actual work of appraising how well their reports were doing. This sparked howls of protest, with leaders claiming they didn’t have time to write up thoughtful performance reviews every year—they were too busy meeting with customers and focusing on strategy. I defended our new policy by taking these leaders through the business logic, in a conversation that went like this:

Me: Does having the best people make a difference?

Reluctant Leader: Yes.

Me: How long does it take to do an appraisal?

Reluctant Leader: An hour.

Me: How long does it take to give an appraisal?

Reluctant Leader: An hour.

Me: How many reports do you have?

Reluctant Leader: Ten.

Me: So you don't believe devoting twenty hours a year to ensuring you have the best people performing at high level is a good investment of your time?

Reluctant Leader: Ummmmm.

Exactly.

We made performance reviews more substantive and serious by changing them to include a measure on each of the Twelve Behaviors, and by requiring that each manager secure his or her boss's approval of each appraisal (see chapter 5). This included my one-over-one review of appraisals for my staff's reports—about 125 people in all. I generally rejected about 20 percent of these appraisals on the grounds that, in my view, they were incomplete. We wanted to ensure that people were supporting our culture, and that bosses were taking performance reviews seriously. To that end, as I've explained, we began timing our appraisals so that they occurred in coordination with salary decisions. Our tighter appraisal process might have required more effort on managers' part, but it certainly helped us boost performance at the top of the organization, while also yielding a more accurate picture of leadership quality at any given time.

To Properly Hold People Accountable, Beware Upward Delegation

About twenty years ago, *Harvard Business Review* published a great article about the phenomenon of upward delegation called "Who's Got the Monkey?"¹ Subpar performers love to evade or at least share responsibility for tasks by consulting with their superiors, in the guise of asking for advice. This can take a couple of different forms. In some cases, they'll send you a seemingly innocuous email explaining a problem, or raise this problem in a meeting, asking, "What do you want to do?" In these situations, you must always put the onus back on them to come up with a solution. Ask them to identify various options and explain the logic behind each, and request that they make a

GET AND KEEP THE RIGHT LEADERS—BUT NOT TOO MANY OF THEM

recommendation. If you don't do this, they'll think you now bear responsibility for the decision.

Alternately, some reports will ask for your opinion on the thought process they went through in arriving at a decision. This might well be their attempt to get you to co-own the decision, even though you likely don't know all of the relevant information as well as they do. When it comes time for a performance review, they'll then point to this conversation to claim co-ownership to evade responsibility for poor performance. Don't fall for this trick. In such situations, I would offer my opinion, but also put the responsibility squarely back on my reports' shoulders, saying something like, "That sounds right, but just to be clear, the decision is on you, not on me. You are the person on the ground so you have to sort it out, and you're also responsible for the results."

ARE YOU THE "PATRON SAINT OF POOR PERFORMERS"?

Of course, enhanced performance reviews would do little to improve the quality of our leaders if we didn't address subpar performance when we encountered it. For years, the organization had been too soft with under-performers, allowing ineffective or bad leaders to continue in their posts. The reasons varied: bosses cringed at having difficult conversations, they felt bad for the ineffective leaders, and they believed certain leaders were too valuable to let go despite their bad behavior. As we made clear, nobody was indispensable any longer. I myself let go of a couple of key leaders who were delivering their numbers yet failing to support our cultural values. As we told senior executives, if they were afraid or reluctant to let ineffective leaders beneath them go—if they wanted to give them another chance—they needed to consider the lives and careers of the thousands of people working under those leaders, as well as the duty we collectively owed to shareholders and customers to perform well. As a rule, the negative effects of poor performers spread far and wide, because others perceive that the threshold of what an organization will tolerate is lower than they thought. By removing poor

performers, we would remind everyone that our standards were high—a lesson I learned when I was an hourly employee. My co-workers and I all knew who the weakest performer in our group was. When that person was let go, we scrambled to make sure we weren't now the weakest!

At Honeywell, leaders at any level, up to and including the CEO and board members, needed to avoid becoming what I called the “Patron Saint of Bad Performers.” When we saw leaders who weren't doing their jobs, we had to act. As time passed, it greatly helped that we were now more rigorous about our succession planning. When we had to remove a leader, we didn't hesitate, because we knew we could move his or her replacement right in without disruption.

We found it similarly important to change who bore responsibility for improving poor performance. Conventional wisdom in the HR community held that bosses had to work with underperformers, sitting with them and providing coaching and oversight. As we saw it, that was precisely the *wrong* thing for bosses to do. Helping the single underperformer on a team of ten get back on track sucks up a lot of valuable managerial time. Leaders are much better off working with the other nine to help them notch wins for the organization, while also attending to customers and operational matters. Underperforming leaders (and lower-level managers and employees as well) needed to take responsibility for fixing their own performance. If they didn't change within a fairly quick time period, they'd face the consequences. That might sound cold and uncompromising, but it really isn't—it's honoring and supporting the vast majority of people who *are* working hard and performing. We tried to handle underperformers respectfully and compassionately, and when they deserved a second chance, we gave it to them.² But we understood that we needed strong leaders on our team if we were going to succeed over the short and long term. That meant evaluating people rigorously, asking subpar leaders to move on if they couldn't improve, and taking great care of top performers.

The trickiest situations occurred when we had strong performers who weren't supporting our values, or were even actively undermining them. On three separate occasions, after several, softer interventions failed, I got tough, holding what I called a “two-by-four” conversation with offending individuals.

GET AND KEEP THE RIGHT LEADERS—BUT NOT TOO MANY OF THEM

In each case, I sat the leader down and told them flat out that I was hitting them with a two-by-four since they had shown themselves impervious to my previous suggestions. I wouldn't argue the facts with them—we were past that. I'd just stipulate that I knew what the facts were, that they had to make a change, and that they had two to three days to decide whether they wanted to do so. I'd add that I was prepared with a backup candidate in case they remained intransigent. After expressing disbelief and demanding where I got my information, these individuals all said they wanted to stay. Rather than accept that decision in that moment, I insisted they take the two or three days to think about it and then get back to me. All three did wind up staying and changing, but I wasn't bluffing—I was prepared for them to bow out.³ I didn't necessarily change what these individuals believed, but I did change their behavior. To build the right culture, you must be prepared to go to the mat for your values, even letting go of strong performers if they won't play along.

Provide Feedback in a Way Recipients Can Internalize

Too many leaders expect their people to adapt to their particular leadership style. If you want the best performance, look beyond your style and provide feedback tailored to the individual. With some employees, you have to yell and scream to get their attention. With others, all you need to say is, "You are capable of better work than this." Yelling and screaming at the latter isn't going to help. And treating the former too politely may elicit a grunt but no discernible behavior changes. Know your people well, and adapt your feedback accordingly. Speaking of feedback, experts often advise that leaders should "criticize privately and praise publicly." Criticizing privately might be appropriate in certain, sensitive cases, but in general both criticism and praise should be public. Your people have to understand that certain behaviors or performance are unacceptable. Otherwise they'll wonder why the organization allows it. When leaders share both criticism and praise publicly, team members learn about the high performance culture you're striving to create.

PAY LEADERS WELL

I've always believed that money alone doesn't suffice to motivate talented people, because the vast majority of us also want fulfilling, meaningful work. We want to be able to go home to our families at the end of the day and talk about everything we accomplished. Some business leaders I've encountered take this idea too far, suggesting that meaningful work is *all* that talented people want out of a job. That's not true: money makes a difference. To get the best people, you must pay them extremely well for what they do *and* give them jobs and a workplace environment they love.

The Honeywell Operating System and our cultural transformation helped make working at our company more fulfilling for leaders, as did our constant drive to perform over both the short and long term. As our long-time employees can tell you firsthand, it's a lot more fun to work for a winning, high-performing organization than it is for a losing one. When it came to monetary compensation, we didn't hesitate to pay our leaders above market. We took some flak for that from the compensation rating agencies, and a bit from investors.

The agencies preferred we adopt a more formulaic approach when calculating compensation. Some "experts" believe the best way to determine compensation is to benchmark it directly to a company's stock market performance in a given year. If the stock is the seventy-fifth percentile as compared with its peers, then compensation for leaders should be below the seventy-fifth percentile. That's silly.

First, the stock market isn't a good short-term proxy for performance. Second, you can't chart performance on a proportional scale. A football player who runs the forty-yard-dash in 4.3 seconds is only 2 percent faster than one who runs it in 4.4 seconds—maybe in the 100th percentile versus the 98th. But that one-tenth of a second and two percentile points make all the difference between winning or losing the Super Bowl, between catching the ball or being intercepted. Small differences in performance can have a

GET AND KEEP THE RIGHT LEADERS—BUT NOT TOO MANY OF THEM

big impact, in business as well as sports, and we need to acknowledge that in how we compensate leaders.

A similar point holds true for a formula that ties compensation to the achievement of specific numbers, regardless of what happened during the year (industry changes, for instance, or investments required to support an urgent strategy). What you are teaching leaders to do is argue at budget time for a shorter yard stick by which to measure performance—less aggressive goals, a smaller budget. Instead of leaders pushing themselves to perform in the short term while also investing in the long term, they are incited, in effect, to get by in the present, and do little if anything to prepare for the future.

Until I left Honeywell, we opted for a compensation formula that prioritized fairness. Human beings must feel they are being treated fairly relative to their performance and to others. I wanted our people to know I would evaluate them based on the totality of their performance, short and long term, and not just if they hit their budget goals. Our approach protected people whose industries wound up faring far worse than expected, while declining to reward people just because their industries happened to be growing more rapidly than expected.

To attract and retain the very best, we also paid the best people what they would command at other companies for a bigger job. Why wait until someone else tried to steal them away before paying them what the market said they were worth? Our corporate compensation consultant felt we were overpaying, and as proof they pointed to the low turnover we were seeing among our senior leaders. I was incredulous: stability in the leadership ranks is a *bad* thing? To achieve strong short-and long-term performance, you want strong performers to stay put, even if they are recruited by other companies (as many of our senior leaders were). Paying them handsomely for their contributions goes a long way. As I explained to that foolish compensation consultant, people did leave Honeywell . . . when I wanted them to!

We also tried to compensate leaders in a way that motivated them to attend to long-term performance, not merely this year's goals. The real problem with pegging compensation to the company's stock price movement is that it encourages short-termism. During my tenure as CEO,

short-term compensation for our leaders tended to be about average for our industry—in the fiftieth to seventieth percentile range. Our long-term compensation (consisting of stock options and restricted stock) was in the ninetieth percentile. While the experts complained this was excessive, our leaders aligned behind the long-term growth initiatives described in this book in part because they saw how much they personally stood to benefit if we succeeded. Many of them made a lot of money at Honeywell, not so much from salary and bonuses, but from options and restricted stock.

If you're in a turnaround situation like we were, arranging for long-term compensation can prove tricky. The usual means of offering long-term compensation—stock options or restricted stock—don't mean much to people when a company is still very much in the dumps. The prospect of potential gains seems too hypothetical. To help stabilize our leadership corps and boost morale early in my tenure, we developed a special growth plan that paid out cash instead of stock. Over a three-year period, leaders received up to 200 percent of their salary and bonus if they exceeded organic sales and ROI growth metrics for their business and at the company level. If we could drive these metrics, it meant our income and cash flow were growing, and we would eventually see our stock price rise as the market realized we were for real.

To further help us retain strong leaders during this difficult time, we sent out quarterly letters updating them on their current performance, what it meant for their payout, and what they had to do to improve. The plan proved a great success, bringing about a sudden and very welcome increase in retention, and helping a One Honeywell spirit take hold. Leaders were working hard, and for a change, they were seeing both financial rewards and eventually a stock market bump in response.

If a compensation plan pays out well, directors and compensation consultants sometimes assume the plan wasn't rigorous enough. A well-constructed plan, they suggest, would pay out exactly 100 percent of projected compensation; otherwise, the original goals were obviously too easy to meet. How absurd! It's true the original goals might have been too easy, but perhaps the higher payouts reflected exceptional performance relative to a leader's peers. If your compensation plan is always paying out

GET AND KEEP THE RIGHT LEADERS—BUT NOT TOO MANY OF THEM

100 percent of compensation, you risk disappointing your exceptional leaders, who feel they've been outperforming but are not being paid for it. If the performance is there, pay for it! Fairness requires nothing less.

To further boost retention among senior and mid-level leaders, we also changed the way we awarded long-term compensation. We knew our people valued stock options (which only gain value if the company performs well) much less than restricted shares of stock (which have some value even if the company is underperforming) because options were inherently riskier than stock, and we hadn't performed well historically. Conventional wisdom using Black-Scholes math (a pricing model commonly used in the analysis of options) held that four stock options equaled the value of one share of restricted Honeywell stock. Rather than simply assume this rule's validity, we ran a survey and found that our people in fact valued stock options much less—in their minds, ten options equaled one share of restricted stock. This made sense: given our poor performance in recent years, many leaders felt uncertain at best at our future prospects. For lower-level leaders, we increased dramatically the proportion of restricted stock, issuing at the rate of six options to one restricted share instead of the conventional four. As a result, we issued fewer shares than the Black-Scholes math said we should. Leaders liked it, retention improved, and we wound up saving money.

HIRE DELIBERATELY

As important as retention is, you must also hire the right people to begin with—a task that requires considerable thought, effort, and commitment. So often busy leaders compromise on the selection process. When a key job opens up and the organization is scrambling, they throw up their hands and say, "Hiring somebody is better than nobody." That might seem true in the short term, but only because you feel better having someone in the position. In reality, the wrong somebody causes a great deal of pain. It's far better to leave a job open for a few months to get the very best person, and deal with the disruption that causes, than to settle for mediocrity.

We invested an extraordinary amount of time to ensure we were hiring top-notch talent. For the approximately two hundred most senior leadership jobs in the company, our HR leader and I personally interviewed the final candidates for each job. Some executives disliked this practice, perceiving that I was micromanaging them, but as I saw it, these interviews were critical. First, they allowed us to exercise quality control. During the first couple of years of my tenure, we probably rejected a quarter of the final candidates we interviewed, finding that our leaders were content to just fill the job rather than hire the very best person. In one memorable instance, one of our business units wanted to hire a leader it had fired just three years earlier. I had hired the same person myself at a different company and had fired him after about six months. Without our HR leader and I exercising veto power, my guess is we'd have had to fire him a third time.

My interviews also imparted a sense to the interviewees of how significant the new job was to the company. When the CEO and global HR leader each take an hour to talk to you about a job you're interviewing for, that says something. Further, these interviews allowed me an opportunity to convey to the new hire what I wanted to see him or her accomplish. I told them I wanted them to build upon what their predecessor had done and not just tear it down.

Sometimes I had to push that point to understand what a candidate would change in the "build" process. When I asked a candidate for the CFO job for one of our businesses what he would change about his predecessor's policies, he replied that there was nothing—his predecessor was "great." I challenged him on this—surely there were ways he could bring needed change. "Nope," the candidate said. I told him that I would step out of the room for fifteen minutes. If he couldn't name three substantive policies he would change when I returned, he wouldn't get the job. Fifteen minutes later, he had come up with eleven significant changes he would make, all of them good. We hired him, and he became a terrific CFO. Further proof of the value of interviews, and of pushing people hard intellectually.

Functional Transformation for Human Resources also played an important role in making sure we were selecting the right leaders. Consistent with the philosophy of accomplishing two seemingly conflicting things at the same

GET AND KEEP THE RIGHT LEADERS—BUT NOT TOO MANY OF THEM

time, we wanted to lower our HR costs while also achieving better service, including hiring people for open positions more quickly. HR had already measured how long it took them to fill an opening, but it wasn't measuring whether we were hiring the right leaders. To remedy that, we implemented a survey of hiring managers at three and twelve months after hiring to see if they were happy with the quality of the person they'd hired. We wanted jobs filled quickly, but not at the expense of quality. By measuring quality, we made everyone in HR much more mindful of making the right hires, and doing so quickly. During the first year, half the scores fell below four on a scale of one to five. Afterward, 90 percent of them were above four. Our survey became a very useful tool, alerting us to hot spots where scores were sliding.

FIND THE TOM BRADY WITHIN

As we saw in the last chapter, we emphasized internal hiring for leadership positions. In part, we aimed to build continuity and entrench One Honeywell in the company, but we also hired internally because we saw it as a way to get the best people. So often organizations overlook the talent right in front of them, stereotyping them because of their credentials or past positions. When quarterback Tom Brady joined the New England Patriots football team, nobody knew who he was. During his first season with the team, he sat on the bench as the star quarterback led the team to a losing record. Then the star quarterback got injured, and the team turned to this nobody named Brady. The Patriots began to win, and they wound up battling their way to the organization's first-ever Super Bowl victory. Since then, Brady has led the team to eight more Super Bowls, winning five of them, for six total, and emerging as the greatest quarterback in football history. Here was a Hall of Fame player sitting on the bench for a year, his superior talent unrecognized—and this in a business that is exceedingly rigorous in how it evaluates talent.

In business, it's easy to write off people in your organization for big jobs because they don't have experience, or because they never got an MBA, or

because they got an MBA from a second-tier state school instead of Harvard, or because they've performed well in a particular job and you have them unfairly stereotyped. As I like to say, in my experience, experience is over-rated. Just a little bit of experience combined with a lot of raw talent is worth far more. In our succession planning, we were always asking ourselves, "Could this person in our ranks be the next Tom Brady?" While we sometimes took a chance on people and lived to regret it, in the vast majority of cases our own, homegrown talent rose to the challenge. Just like Tom Brady, they were sitting there the whole time and nobody could see them.

In deciding whom to hire, we also focused on building teams that would work well together, adding people with certain personal qualities that would balance out or complement those of our existing staff. If a given team had a decisive leader, we would seek to put in place people around him or her who were more deliberate by nature, and vice versa. I considered the need to achieve balance in teams when assembling my own staff. I knew I could be defensive and decisive. Although I needed to mitigate my own defensive responses to criticism, it would certainly help if I hired people who would push back at me in ways that were less likely to trigger an emotional response from me. Likewise, I needed more deliberate people on my team. If everyone else was as decisive as I was, we would all go off a cliff together at 150 miles per hour. When it comes to understanding the personality types of team members, we used the Myers Briggs test, which in my view is the best tool in the world. I'm generally not a fan of HR stuff, but Myers Briggs works!

"Smart" Isn't Enough

Many companies look to hire smart people when filling leadership roles. And yet, being a good leader takes more than just intelligence. Smart leaders get beaten every day by others who have better judgment, less ego, and more common sense; who pay more attention to execution and detail; who possess better interpersonal skills; and who can recover from setbacks better, think more independently, and work harder. Learn how to use all these skills as you

GET AND KEEP THE RIGHT LEADERS—BUT NOT TOO MANY OF THEM

lead people and run meetings to arrive at good decisions. And just as importantly, hire people who have those capabilities in addition to being smart. Oh, and be sure to pick people who have something to prove to the world. As the old adage goes, it's easier to take a bit of wind out of someone's sails than to put wind into their sails to begin with.

KEEP FEWER LEADERS

I've discussed how to enhance the quality of leaders, but as good as they might be, it's important not to have too many of them. Too often organizations suffer from a kind of "leadership bloat." They establish new leadership positions in order to lend significance to exciting new business initiatives, but they don't do enough to ensure that their existing leaders are working as efficiently in possible. The result—too many leaders—drags down performance, even if the vast majority of those leaders are high performers. That's because more leaders equals more bureaucracy. Leaders don't just lead—they create work for other people, in the form of meetings, sign-offs, projects, procedures, priorities, and so on, especially if they're good leaders. Others in the organization then spend more of their time responding to these leaders and less time leading or managing their own team members. Each leader has their own staff—adding yet more cost and complexity to the organization. And when you have more leaders, you have more slots you need to fill as people retire or leave the organization.

When I became CEO, we weren't suffering from "leadership bloat" in investors' eyes—they thought of us as a lean company. Still, as we stabilized the organization over the next few years, I suspected we weren't as lean at the top as we could be. One of our leaders, a manufacturing expert, took all of our top manufacturing leaders on two-week trips every year to far-flung destinations in order to evaluate whether we might build plants in these countries someday, and they also dedicated three days a quarter for staff meetings. That seemed strange to me. Why were we spending so much time

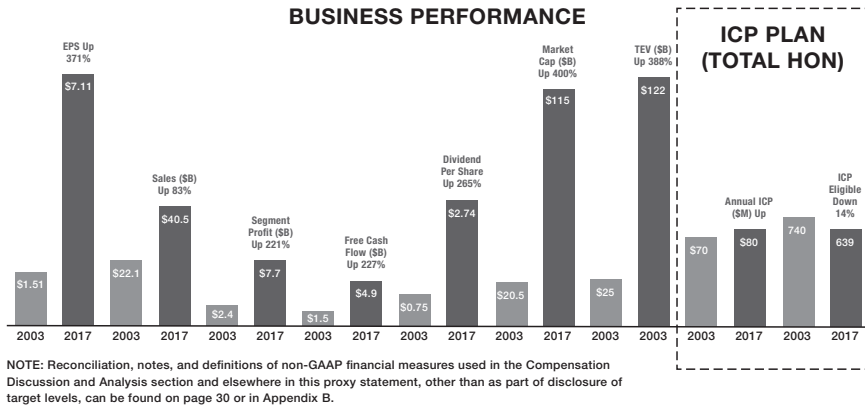
on these trips and staff meetings when we desperately needed to work on improving our manufacturing operations and implementing the Honeywell Operating System? I wound up stopping those trips and meetings and eliminating that leader's position.

I still felt that with a bit of effort we could prod our leaders to operate more efficiently. Rather than slash positions indiscriminately, I gave every functional and business leader targets each year for incrementally reducing the number of leaders in their organization as well as financial targets. Whenever one of our top 740 leaders departed, we didn't reflexively hire someone else but instead asked if we really needed that person's position, or whether we could push his or her former responsibilities into another leader's job. Most of the time we really did need the position, but probably two or three times out of ten, we found an opportunity to do more with fewer leaders. We did something similar, by the way, with our workforce as a whole, tracking our employee census by business function and geographic region on a monthly basis to make sure our businesses weren't over-hiring in developed countries. As I'll detail later, we had no hiring constraints in emerging, high-growth regions because we wanted to build capability there. When I saw the census for a developed country's business ticking up, I said something. Keeping tight control over hiring was vital to keeping our costs fixed as our business grew.

In addition to reducing bureaucratic drag, keeping fewer leaders reduces cost,

making it easier to compensate richly the leaders you do have, and allowing you to attract and keep the best. Consider the following chart out of our proxy statement, which compares Honeywell's performance in 2003 to that in 2017:

GET AND KEEP THE RIGHT LEADERS—BUT NOT TOO MANY OF THEM



Note: “ICP” designates Incentive Compensation Plan

As you can see, our sales rose 83 percent during those fourteen years, earnings per share by 371 percent, and total market capitalization by 400 percent. At the same time, the number of senior leaders eligible for our incentive compensation plan (ICP) declined by 14 percent, or 101 people, and the total cost of our bonus pool only rose by 14 percent. That represented a big win for investors—they were getting a great deal of value from their holdings, yet paying only slightly more to our leaders than they had been when our performance had been much weaker (this is true as well if you consider our overall compensation costs, including not merely stock grants and bonuses but also salaries). So much for those analysts who said we paid our leaders too much. When you ask leaders to do more, and they deliver over both the short and long term, leading to wins for shareholders and customers, then those leaders deserve higher than average compensation.

HR IS TOO IMPORTANT TO BE LEFT TO HR PEOPLE

If you haven’t thought much about leadership quality, you should—whether you lead a team of ten or an organization of 100,000. In larger organizations, you might be tempted to nod your head at the tactics described in this chapter and then task Human Resources with executing on them. That would

be a huge mistake. As the decision-maker in your organization, you must become intimately engaged with leadership development, hiring, and firing.

I've mentioned that my global HR leader and I personally interviewed final candidates for our two hundred senior-most leadership positions. But that was only the beginning. I personally reviewed the compensation plans for our top six hundred leaders to confirm that it was fair and that it corresponded with what we had heard during our annual, cross-functional MRR review, which I also led. To set an example for the organization, I personally developed all of the appraisals for my staff, holding in-depth discussions with each of my reports. I also performed reviews of the appraisals my staff conducted of their people, reading them closely.

In 2006, we created a special restricted stock units (RSUs) award program for about sixty of our key lower-level executives. We would select these sixty people each year to receive awards representing between 50 and 120 percent of their respective salaries. Once a leader received this award, he or she couldn't receive it again for three years, allowing us to touch almost two hundred high-potential, lower-level leaders during that period. Each August I called every recipient to discuss the reward, what they had done to merit it, and what the award represented. That took a fair amount of time, but it was worth it. When these up-and-coming leaders received a call from me, they sometimes thought it was a practical joke. In an organization of over 100,000 people, why was the CEO calling *them*? Personalizing the award left a positive impression, contributing to the significantly higher retention rates we saw among these executives as compared with the rest of their cohort.⁴

When I explained my engagement in personnel matters to my team, I paraphrased French prime minister Georges Clemenceau, who used to say, "War is too important to be left to generals." To the occasional discomfort of our HR folks, I said, "Human resources is too important to be left to human resources people." That is undeniably true. As CEO, I wanted to know the leaders in my organization well, and I wanted to guide them to become the best they could possibly be. Over time I made sure to know personally the top three to five hundred leaders across all of Honeywell. As I remarked in chapter 5, I wanted to make sure they embodied the values we wanted in our

GET AND KEEP THE RIGHT LEADERS—BUT NOT TOO MANY OF THEM

culture, and being that familiar with them meant I could help fill positions almost immediately when an executive decided to leave.

Remember, too, that your personal engagement serves as a model for others. Just as we asked leaders throughout Honeywell to perform thoughtful performance reviews of their reports, so we also tasked them with coaching and teaching their reports, eliminating the usual executive coaching and MBA programs that companies offer. That occasioned a fair share of grumbling, but it helped that leaders throughout the organization saw me personally reviewing my own staff's performance, teaching in our training programs, and interviewing candidates for leadership jobs. By becoming more involved, you'll send the message that leadership truly matters to your success, and that you personally value it.

When it comes to compensation, strive for fairness. I've focused on leaders here, but we designed our compensation programs for all Honeywell employees with fairness in mind. When calculating bonuses for an entire business unit, we didn't just consider whether the business had met its goals, but also how its performance compared with the previous year, with the industry as a whole, and with the company's overall performance. We also considered whether leaders had made the right decisions to enable our long-term growth. Sometimes we adjusted an entire business's bonus pool upward if we felt it was warranted, and it also went the other way. We wanted the entire organization to strive to do its absolute best while investing for the future because they knew we were going to recognize them for the actual performance they delivered.

As you develop your leadership talent, be prepared to take some heat. Paying leaders well isn't popular these days—just look at all the controversy about CEO compensation. Many people believe the compensation game is rigged to benefit management because corporate leaders are all friends. In our case, that just wasn't true. What mattered was performance, over both the short and long term. We paid out so well because we actually did well over the long term. When we did the math, we found out that we actually would have paid out more if, as the compensation agencies recommended, we had pegged more of leaders' compensation to our stock price. Hold your ground when it comes to compensating leaders well and in ways that encourage

long-term thinking. Much of the business world remains beholden to short-termism. You don't have to be.

LEADERSHIP MATTERS

Despite my arguments in this chapter, you might still wonder whether I'm emphasizing leadership too much. How much of our performance gains really owed to our leadership quality as opposed to the other initiatives described in this book? Is it really worth devoting so much attention and resources to leaders? My answer to the first question is "a lot," and to the second question an unqualified "yes." When I wrote the original draft of this book, I titled it *Leadership Matters*—because it absolutely does. As Mark James, our head of Human Resources, once remarked, many people consider leaders to be like light bulbs. Just replace the bulb, and you get the same amount of light. Nothing could be further from the truth. If we hadn't taken time all along to attract, retain, and develop best-in-class leaders, we wouldn't have generated results worth writing about. Focusing on our growth initiatives, processes, and the general intellectual discourse in our organization was critically important, but without great leadership it wouldn't have amounted to much.

To illustrate the importance of leadership, let me tell you about a man named Carl Johnson. He grew up in the small town of Galion, Ohio, amid very difficult circumstances—his father had been in prison and absent for much of his childhood, and his mother got remarried to a man who was abusive. The trauma of living in the household was so bad that Carl's younger brother eventually died of a heroin overdose. Carl might have met a similar fate had he not developed a passion for athletics. He became the star quarterback at his high school, leading his team to a state championship. His football coach became a father figure to him, encouraging him to leave town and go to college. So that's what Carl did. He won a football scholarship as a quarterback to attend the University of Cincinnati and then went on to earn an MBA from the University of Houston.⁵

GET AND KEEP THE RIGHT LEADERS—BUT NOT TOO MANY OF THEM

In 1998, Carl went to work at Pittway, and in 2000, he became a Honeywell employee when we acquired that company. He rose through the ranks in our fire protection business. In 2006, we put him in charge of our gas detection business, which was then minimally profitable and beset by terrible quality problems—customers would routinely receive defective products. Over the course of a few years, Carl worked hard to implement the Honeywell Operating System. His organization fixed the quality issues, developed some great new products, and focused on pleasing our customers. As a result, the business grew rapidly (over 50 percent organic growth over a three-year period) and achieved operating margins of over 20 percent. Today, it remains highly profitable.

Carl exemplifies the success we had developing and retaining leaders, as well as the tremendous contribution those leaders made toward our success. He was one of those Tom Bradys in our midst, and we never would have found him had we not focused so consistently on our leadership pipeline, with an eye toward developing leaders from within. We also never would have kept him for as long as we did had we not incented him both financially and by providing him with a great work environment in which he could thrive.

Today, our leaders are constantly being recruited for jobs elsewhere, but many of them stick around—and for many years Carl was one of them. “I saw security [in Honeywell],” he recalled. “I saw stability. I saw development. I saw opportunities for growth for me and my family. What I loved about the environment, it was very competitive and a results-oriented business.” He also liked that we were focused on long-term results, that we didn’t have a “one-and-done” mentality, but one focused on delivering the “right results.” Carl did eventually leave the company in 2018 after twenty years of excellent and dedicated service.

To win both today and tomorrow, your business needs more leaders like Carl. It’s up to you to find them, nurture them, and create an environment in which they’re inspired and empowered to perform. As I think you’ll find, doing so creates a virtuous cycle. Put great leaders in the right culture and you’ll drive performance, which in turn will give leaders the monetary and emotional incentive they need to take performance even higher. Who knows how much or how fast your business will grow?

QUESTIONS TO ASK YOURSELF

1. How much time do you spend nurturing the leadership pipeline in your team or organization? Does this imperative frequently get lost amid other priorities?
2. Do you perform succession planning with enough rigor and vigor? Is your organization frequently unsettled by departing leaders? If your best people left tomorrow, how long would it take you to lock in replacements? Do you actively seek out the Tom Bradys already in your organization?
3. Are your incentives primarily oriented toward short-term goals? How might you effect more of a balance between rewarding short-term wins and long-term performance?
4. Do you personally interview candidates for important positions?
5. How are leaders in your team or organization trained? Do you play a role in that?
6. Are you paying your best leaders enough? If you want top talent, you have to pay for it! And are you creating the conditions required for them to succeed?
7. Does your organization have too many leaders? When leaders depart, do you stop to ask whether you really need anyone in that position? Can you combine that position with another one? When a staff member wants a new leadership position in order to focus on an initiative (oftentimes warranted), do you push them to cut a leadership position elsewhere?
8. Are HR practices as rigorous in your team or organization as they might be? Do bosses take performance reviews seriously? Do you time these reviews to align with salary actions? Do you take a hard line with underperformers? Do you amply reward your top performers?
9. Are you careful not to let subordinates delegate upward in either emails or in-person conversations?



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