



The Economic Club of New York

113th Year
551st Meeting

David Cote
Executive Chairman
Vertiv Holdings Co.

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Webinar

Moderator: Julia La Roche
Correspondent, Yahoo!

Introduction

Vice Chairman Michael O'Neill

Good afternoon and welcome to the 551st meeting of The Economic Club of New York in our 113th year. I'm Mike O'Neill, Vice Chairman of the Club. The Economic Club of New York is one of the nation's leading nonpartisan forums for discussions on economic, social and political issues. We're happy to welcome members of the ECNY 2020 Class of Fellows and graduate students from Columbia Business School, NYU Stern School of Business, Gabelli School of Business at Fordham and the Zicklin School of Business at CUNY Baruch.

As has become our custom, before we begin, I'd like to thank our healthcare workers and our frontline workers for all that they've done and continue to do to keep us healthy during these challenging times.

It's now my honor to introduce our guest today, my friend and former Economic Club of New York Board Member, David Cote, Executive Chairman of Vertiv Holdings. For over 16 years as Chairman and CEO of the industrial giant Honeywell, David grew the company's market capitalization from around \$20 billion to nearly \$120 billion, delivering returns of 800% and beating the S&P 500 by nearly two and a half times.

Before Honeywell, David worked for General Electric and TRW. He was a Class B director to the Federal Reserve Bank of New York to represent the interests of the public from 2014 to 2018. In 2010, David was appointed by President Barack Obama to serve on the bipartisan National Commission on Fiscal Responsibility and Reform.

We're delighted to host him today to discuss his new book, *WINNING NOW, WINNING LATER: How Companies Can Win in the Short Term While Investing in the Long Term*.

The format is a conversation which we're fortunate to have Julia La Roche doing the honors. Julia is correspondent at Yahoo! covering the C-suite with a focus on Wall Street. We will end promptly at 3:45 and any questions that were sent to the Club from members in advance were shared with Julia. As a reminder, this conversation is on the record as we do have media on the line. Julia, over to you.

Conversation with David Cote

JULIA LA ROCHE: Mike, thank you so much. And David Cote, it's so great to bring you into the conversation and a really nice introduction there about your time at Honeywell and the turnaround and also the fact that you are now a bestselling author. I read your book, *WINNING NOW, WINNING LATER: How Companies Can Win in the Short Term While Investing in the Long Term*. And I have to say this is a book for everyone, whether you are a CEO on the track to the C-suite or you are a 22-year old fresh out of

college. Really just a refreshing read, a nice deep dive into your time at Honeywell, learning about your principles.

DAVID COTE: Thank you.

JULIA LA ROCHE: So, I'd like to start here. You said "my opportunity to change as a leader began in February 2002" when you were coming on to Honeywell. I was hoping, David, that you could share with us your leadership journey to start.

DAVID COTE: Well, journey is probably the right word because there's no doubt that I evolved as a, let's say a persona when it came to leadership over the course of my career. And I'd say that's probably going to be true for anybody who is successful over a long period of time because I'm fond of saying that whether you're an organization, a company, a country, or a person, you have to evolve. You've got to keep evolving. The world around you is constantly changing. How you think about things has to change and you have to evolve yourself.

And I'd say one of my big evolutions coming into Honeywell was, first of all, it was very different than what I expected. I didn't expect something that was in great shape because externally everything you read said there had been issues and a lot of problems. I was a little surprised when I actually got to see how everything was working,

that it was significantly worse than what I expected. Whether it was the bookkeeping, the environmental liability, the asbestos liability, the underfunded pension, the warring cultures, the lack of investment for a period of time, there was a lot of stuff that required fixing.

And come to find out, I ended up learning early on I couldn't trust my board and I couldn't trust my staff, three of whom had interviewed or expressed interest in my job, so given they didn't get it they had a different perspective on whatever I might be recommending. And it caused me to start to run meetings very differently than what I had in the past. And I had to be more cautious and I didn't express my view up front. And what I ended up finding, though, was I was making better decisions. I was getting much more kind of color commentary, opinions, facts that people might not have expressed otherwise. The difference between introverts and extroverts became even more important when it came to making sure that I've got the right input.

But as a result of that, I was making better decisions and that's what led me to say, and I included this in the book, that it's important as a leader to be right at the end of the meeting, not at the beginning of the meeting. And that you get measured on do you make good decisions, not on whether you were right from the very beginning.

JULIA LA ROCHE: I think that's really well put. You just kind of reminded me of a

couple of things. I told you earlier when I was reading your book, there were moments where I would go and write down various anecdotes and it was, again, refreshing because it's a book for everyone. So I was hoping we could just kind of dig in further. Talk to us about that process that, you just referenced meetings, that was such an interesting part in the book. I would love for you to share that with the folks watching.

DAVID COTE: Oh, sure. Yes, the thing I started to do differently was, several things. The first one was I had a discussion with everybody up front, everybody on my team, and said I don't want to ever have a meeting and then after the meeting is done one of you comes into my office and says, hey, Dave, you know what I didn't say in the meeting because I was a little uncomfortable about it and it would have offended so-and-so, but you need to know this.

And it happened like two or three times and I had told everybody up front, do not do that to me. And the two or three times that it happened I actually had to look at the person and say – and I might have been a little more colorful than I will be in this discussion – and say thanks for just wasting all of our time. Now we have to pull the whole meeting back together again. I need you to say it in front of everybody so that we can discuss this openly and candidly, then we can make a decision. And I only had to do that two or three times and it's like everybody got the message, you know, don't think you can go back in there later after everybody's gone and get the decision to go your way, which

happens a lot in companies. It's really surprising. It happens a lot.

The next one was, it's kind of interesting, you think about how you grow up in a career. You usually start as an individual contributor. And as an individual contributor, your job is to analyze, then come to a conclusion, then advocate for your view. Well, as you start to become a leader, there's never a time when you're going to know everything you need to about whatever decision you need to make. You're just not.

So the trick has to be how do you get all the facts and the opinions in order to be able to make a good decision, and I always call that forming a mosaic. I said it's not going to be as pretty as a painting; it's going to look more like a mosaic. You're taking all the pieces and kind of putting them together to develop a picture of what seems to be right here.

And that means not declaring up front what you think and instead making everybody else participate and make sure you call on the people who aren't talking, look for body language and facial expressions. I mean it's really surprising what you can pick up as you just look around the table while somebody else is talking, and just call on people. And I would make sure that if there were ten people in that meeting, all ten spoke up. I would actually just call on them and say, well, you know, what do you think?

And it's really surprising because you end up learning, for example, that introverts and extroverts just speak very differently. And there was this one guy on my team, very

introverted. And he would just kind of sit there very placidly, totally composed as if he was on the worldwide poker tour and didn't want to disclose a single tell. And he would just sit there. And you would think, man, the guy is a lump. And at some point, I would turn to him and say, so, what do you think? And geez, he would go on for like three or four minutes about everything he'd heard, how he was putting it together, how he was thinking about it, his recommendation. He just had a pile of information.

So I would make sure that we did all that. And as I used to say, the easier part as you start to do this is when somebody disagrees with you, you can kind of support it and say, okay, you know, maybe so-and-so has a point here, what do you folks think about this? What do you guys think? Gee, why wouldn't that make sense? But the tougher one is when somebody says something that you agree with, is not jumping to say I think she's got it! You know I think that could be it! But just kind of doing the same thing, is taking the opposing point of view and working it out.

Then the last thing I do is at the end, I would then turn to – once everybody had a chance to talk – I'd turn to the most junior person in the room and ask that person, so what do you think I should do? And man, it is funny when you do that because what's the first thing they do? They look at their boss. And what's their boss do? Go to answer for them. And I'd always put my hand up and say, no, no, I understand, I got your point. I'll get to you. I want to know what this person thinks. And over time they get used to it,

but in the beginning it's really uncomfortable for them. And then I'd work my way around the room from the most junior to the most senior, the most interested in whatever the outcome was.

Then once I had all that, then I would say, okay, here's my decision. And then I would explain it and explain why, whatever their countervailing points were, why I didn't give that as much weight as I did something else. Because I felt there were a couple of things that I'd be doing. The first was teaching people, hey, here's how I'd like us thinking about things or weighing things. But the second one is too many people feel like if you don't agree with me, it means you weren't listening. And the point I always used to make is there's a big difference between listening and agreeing. I can listen to you. I can understand your point, but it is possible I disagree. And by being able to take the time to explain it at the end I thought it gave me a greater chance that people would say, okay, he did listen, he did understand, he just doesn't agree with me. And by the way, there's no repercussions. It doesn't matter. He doesn't care whether the decision went against me or not. What he really wants is the input. That may be more than you wanted, Julia, but...

JULIA LA ROCHE: I can tell you get excited talking about it. It's always interesting to kind of pull back the curtain and I don't think I'll ever look at meetings quite the same. You know one of the big themes here is we often hear about short-termism and you

basically write about the importance of overcoming that and focusing on the longer term. And one of the things you really kind of narrowed it down to is kind of keeping these two opposing ideas, these conflicting ideas, in your mind at the same time while managing that short term but thinking about that long term. I was hoping just you can unpack; you often hear about short-termism and why we have to focus on the long term. And you've seen the Op-Eds that have been written about maybe we should rethink the whole quarterly reporting and yada yada. I was hoping you could unpack your philosophy as it relates to the long term.

DAVID COTE: Sure. I guess the first point I'd make is we are not going to regulate our way to long-termism. So anything that, you know, like changing quarterly reporting, that's baloney. That's not going to change anything. This is not a place for government to be getting involved. I mean there's a lot places they should get involved. This isn't one of them.

The second point I'd make is we were very big in running Honeywell on this theme that success is about accomplishing two seemingly conflicting things at the same time. And it's not like Jack Palance and Billy Crystal in City Slickers where they say, you know, it's just one thing. It's not just one thing. It's not that simple. It's always two seemingly conflicting things. And when you start to look at the world that way, you start to realize, by God, it's right.

And think about various business examples. Do you want low inventory or do you want great customer product delivery? Do you want high prices and margins or do you want big volumes? Do you want people closest to the action empowered for quick decisions or do you want good control so nothing bad happens? Do you want good short-term results or do you want good long-term results? In every case, the answer is I want both. And success means figuring out how do you accomplish both? And by the way, you can take this philosophy, you start looking around you'll start to see it everywhere. Do you want a good work life or do you want a good home life? Do you want the economy to reopen or do you want people to be safe? And we always position it as you've got to pick one or the other when in reality the trick is figuring out how do you accomplish both at the same time.

When it comes to short term and long term, the biggest issue is addressing leadership mindset. And that's why the title of the first chapter is "Banishing Intellectual Laziness." And one of the things that I disliked and one of the reasons that I wrote the book with the theme I did is exactly what you pointed out is I'd read all this stuff and they made it sound like it's mutually exclusive. Well, you know, are you a short-term focused company or are you a long-term focused company? Short-term be damned. And I said that's Hobson's choice. It's not real. We've got to look at this and say how do we accomplish both at the same time. And that was the, the point of the book.

Now interestingly, this theory that I talk about a lot, the two seemingly conflicting things at the same time, when I first kind of stumbled across this idea, oh, I'd say 30 years ago now, I used to call it my any ninny theory, as in any ninny could do one thing, but it took a certain amount of leadership and capability amongst the team to be able to figure out how to accomplish the two seemingly conflicting things at the same time. Then the more I read and the more I learned, the more I realized that my original discovery that I was so entranced with was far from original and it had been discovered by many others over time for a long period of time. But the thing that struck me was how few people practice it. And there may be a lot of people who know about it. There may be a lot of people who when you talk to them go, yeah, I guess that's right, that is true. But there are very few leaders, I think, who actually do it and do it well.

JULIA LA ROCHE: That's an interesting point. Yes, and maybe now more than ever, I know you didn't plan for the book to come out at this exact moment in history, but you can make a case that this is a very relevant conversation amid a backdrop of a global pandemic that has created an economic crisis. It's highlighted a lot of inequality. And then also a social crisis that's, you know, really taken hold globally. So I guess my question for you, David, is what do you think the role is for companies and CEOs as we kind of navigate, what is the responsibility as it relates to some of these crises we're going through?

DAVID COTE: Well, I guess the two that we talk about that are most top of mind right now are reopening the economy and that's one where I think every company needs to figure out for themselves what makes the most sense here. But based on, I would still approach it the same way and say, okay, we need to reopen. People need to work. We can't continue to hurt GDP the way we have and hurt people's lives the way we have. But we have to do it safely.

And, for example, from, at least things I've read, if there was a lot more focus on just wearing masks everywhere you went, that would be a significant reduction of the potential impact of this – social distancing, washing your hands, all those things. And companies and the country need to find a way to reopen as quickly as we can. It doesn't mean reopen in its full flower, nobody cares anymore, we're not going to worry about any of this, but we should be able to get to like 95% open with following a lot of the things that I was just talking about.

When it comes to racism, this is one where I'd suggest that there could be a better focus on the short term, long term aspect of it. We're focusing a lot on the short term in our discussions – the criminal justice system, police forces, hiring, all those sorts of things which absolutely need to get addressed. However, I would like to see more long-term focus on something like education.

And if we take a look at how we do education in the country, how we fund it, the lack of focus now on national testing because all the folks who maintain teaching to a test is wrong, which I disagree with – you should have a certain modicum of basic facts in your mind before you're taught how to think about things – there's a lot more work that ought to go there. Because I would argue the way we set up our education system is racist because minorities are more likely over-represented in lower socioeconomic classes. Education is primarily funded via property taxes. The richer your community, then likely the more money that's going to go to the school.

So we ought to be thinking about what do we do differently when it comes to education to make sure that if you're a kid coming from a poor area, you still get a robust education and the opportunity to get out of there and be able to have a very different life for you and your family. And we don't talk about that at all. We're so focused on the now that we don't say, geez, you know, this was an issue 50 years ago, it's still an issue today, why don't we do something differently?

JULIA LA ROCHE: It sounds like it's something you've thought about. Any sort of ideas that you could share there?

DAVID COTE: Well, our education system is one of my pet peeves as you could probably tell just by how I was talking about it. And I always say we've got an education

system that was designed by elitists for whom the system worked and we don't really take a good look at how do kids learn and how do they learn at a different pace and this whole idea that, well, you know, you make more money if you go to college so everybody has to go to college. Well, not every kid wants to go to college. As you saw from the book, if I could have made decent money as a mechanic, I would have never gone to college myself because I hated school. I couldn't wait to get out of there. And I'm not alone. There's a lot of kids that are like that. And saying, look, just tolerate this until you're 18, then three years later, then you get a chance to do something you want to, when you're that age, if you're a teenage boy, that's not so easy.

And I don't see why we have to teach math, algebra for example, to every kid the same way. It's just we teach it at a slower rate if you're in one of the classes that doesn't have all the really smart kids in it. And what if we taught algebra more like how do you build a house. What's the math you need to know to be able to calculate what a set of stairs ought to look like, what do the risers and the steps and the treads need to look like and the distance it needs to travel? Do it in a way that provides something usable.

Also, when it comes to funding, I really, it's a mistake I think for us to continue to just rely on property taxes. I would also say I think it's a mistake when we don't do something like national testing. Both Kennedy and Bush were in favor of it. It made sense at the time, but everybody's pulled back from it because localities complained

and teachers complained about how wrong it is to teach to the test. And I don't know when that became a bad thing because if you put the right stuff on the test, like basic math, English, science, I don't see why that's wrong. So I'd like to see a fundamental rethink of how do we fund and how do we teach, including using the computer, the machine. I think we could use that a lot more than we do. And certainly Covid kind of showed that we haven't gone anywhere near as far with that as we ought to.

JULIA LA ROCHE: Yes, you know it's interesting, just reading your book I didn't quite know your full story and you saved some of that, especially some of your academic endeavors for the end of the book, you know, some stories about you as a student in college. I do want to shift a bit and talk about the theme of capitalism right now. I know, I'm a millennial and I'll sometimes see polls where, you know, millennials are not in favor of capitalism quite as much. I would like to get your view on that and how do you think that's starting to evolve and if we need a rethink of our capitalist system.

DAVID COTE: No. I don't think we need a fundamental rethink. And I know it's become de rigueur now to kind of diss Winston Churchill also, but he was a pretty clever guy and I thought he had a great saying when he said, "With capitalism we have uneven sharing of the prosperity. With socialism, we have equal sharing of the misery." And that was true then and it's true today. That being said, of course, I'm not in favor of unfettered capitalism because left to its own devices, you can end up with some bad practices.

However, I am a believer that business is the biggest force for good the world has ever seen because from business comes productivity, from productivity comes standard of living. And that doesn't mean you don't put minimum standards, whether it's safety, environmental, what are the right rules in order to have your financial markets work or whatever. You have to have that. But you don't want to throw the baby out with the bath water and say, well, that means capitalism is bad because nobody has been able to come up with a system that's better. So we don't want to cut off our nose to spite our face here.

Instead, what we might want to do is if you have communities affected by jobs – we'll say – that have globalized, gone somewhere else, even though that has a positive impact on the overall economy, it really hurts if you're in that locality. So what do you do there in order to truly give them real job training, not the kind of job training that a lot of government money has gone to that didn't yield a lot, but rather something that really does provide real job training? So you want to take the edges off so that it's smooth transitions but, by God, the last thing you want to do is kind of harness it in a way so that you don't get the growth that you used to, the standard of living doesn't improve the way it used to. And what you find out is, you then don't have the resources to fix a lot of the issues society has without that economy doing well.

JULIA LA ROCHE: And I guess that kind of plays to your thesis of overcoming short-

termism and why that's so critical. Is that correct?

DAVID COTE: I'm sorry, Julia, I'm not sure I follow.

JULIA LA ROCHE: So that's why, you know, what you were just outlining there as it relates to capitalism and thinking about future growth, that's why it's so imperative to overcome short-termism. Is that what I'm hearing?

DAVID COTE: Yes. And that's true both for business and for government. And if you take a look at government right now, we spend \$4 trillion a year, \$3 trillion of it going to Medicare, Medicaid, Social Security and interest, none of which is appropriated by Congress or signed off on by the president, that spending just continues unabated, unappropriated, and it just is what it is. And with my generation retiring, it's one of the things that's causing the debt to increase as rapidly as it is.

So, what do they focus on? The other trillion, about 600 of which is the Defense Department, the other 400 is everything else, including things like investing in R&D. And if we take a look at R&D for example, we tend to lump the two together. R&D sounds like the same thing, research and development. But if you look at companies, in general 90% to 99% of what they spend is development. You have a technology already. Somebody has developed something, you're able to modify it. Maybe you put in a little

bit of money in order to develop something, but 90% of the money goes towards development – how do you turn whatever it is you have into something saleable?

Well, a lot of basic research done by the government will do a lot to advance the cause of business and capability of business across the U.S. And I think that's going to be fundamentally important in the 21st century when one of the biggest – in fact I'd argue the biggest – geopolitical issue we're going to deal with is China. And this is not a time to be focused on, well, we can't do anything about entitlement spending, so let's cut all this other stuff. We've got to figure out, okay, between what do we do with entitlements, what do we do with taxes, and what do we do to create more of an investment government as opposed to an entitlement government in order to be able to participate and compete in this 21st century.

JULIA LA ROCHE: Yes, a couple of things to dig in there. I guess the question is how do we catalyze growth for our future? And then I guess my second question we can dig into later, China, you just mentioned the geopolitical attention of the 21st century being U.S. versus China, I would love to tie that into the conversation as well.

DAVID COTE: Well, starting with China, I would argue that as a country we do not have a strategy for dealing with China. We have point-to-point solutions so they do something in the South China Sea or there's Hong Kong or there's what's going on with the

Uyghurs. There's the New Belt and Road Initiative. They have students in the U.S. We have cybersecurity. So we'll come up with kind of these point-to-point issues, but we really don't have kind of an overarching, so what is our strategy when it comes to China, other than people who seem to think that they can be contained, which I think would be a silly strategy and not good for the world, not good for China.

And nobody is looking at it and saying, well, wait a minute, they're the second biggest economy in the world. Yes, some may think that their system is not survivable the way it is and that'll bring them down. But that's a silly way, again, to predicate your own strategy based on somebody else's failure, and we ought to assume they're going to be successful. And given that, what do we do? And how do we create an environment, and this requires their participation, this can't just be the U.S. But the U.S. and China working together, how do we make sure that this century evolves peacefully and we don't end up in what Graham Allison has referred to as Thucydides's trap where we've got a rising power confronting an established power and it kind of rolls out of control in a way we wouldn't like. And we don't have a strategy there and we need to have one.

JULIA LA ROCHE: Well, I guess, because you had some success with your own China playbook going back to Honeywell, any sort of lessons that you learned that maybe you could apply to this conversation. You're talking about Thucydides's trap. This is something that has come up in other conversations I've had with executives who have

experience in China. I was hoping maybe there might be something to share there.

DAVID COTE: Well, my experience, and the Honeywell experience in China and now actually Vertiv's experience in China also, is actually tremendous. I know there's a lot of people who talk about the difficulty of doing business there. I do think it can be different depending upon the industry that you are in. U.S. tech firms doing business in China and Chinese tech firms doing business in the U.S., okay, that's going to be a tough road for a long time.

For others, it'll vary from there all the way to what we experienced which was just incredible success. We grew from like \$200 million in sales to \$3 billion in sales and went from something like 500 employees to 13,000 employees there. And our big focus was being local. And I do think too many western companies go into China with kind of their western design, their western approach, and say, okay, now we need the Chinese to adapt this. And they have a different point of view oftentimes. And what you find out is if you're local in design, the people you hire, the leadership, design authority, staff functions, well, you end up with a very different mentality, including decision authority. You've got to give them decision authority also. Then you can end up in a very different place than other companies might find themselves in.

JULIA LA ROCHE: I think, just going back to your book, because I do want to bring

some of these anecdotes up as well...

DAVID COTE: Uh-oh...

JULIA LA ROCHE: One of the key take-aways for me, David, was culture and how you were able to get culture right and get culture right on a global scale. How were you able to do that? Because you do hear companies that are like, Rah-Rah, our culture, but sometimes it's just lip service or some words on a piece of paper. But you really embraced that and then were able to translate that.

DAVID COTE: Yes. That is, I'd say, an interesting question because, first, going into Honeywell, we had three competing cultures. We had the legacy Honeywell, legacy Allied Signal, and legacy Pittway, all of whom had a different view of the world and competed amongst themselves. And P.S. I've got some stories about that also.

Trying to pull it together, I thought, okay, we've got to get everybody focused on something outside of themselves. So we picked the customer and said, okay, let's focus on the customer because that's outside of the three businesses and it creates a more objective kind of discussion to say, okay, what's right for the customer here.

The other thing that came up when we were trying to develop our behaviors, what behaviors did we want our culture to have, is I can remember one person in the meeting

saying, Dave, why are we fooling around with sorting out what our behaviors are going to be – and we had twelve of them and we kind of joked that God only needed Ten Commandments to fix the world but we needed twelve to fix Honeywell – somebody said, geez, why are we focused on these twelve behaviors in culture when we've got all these strategic issues that we need to address? And I said, okay, well, you know, I can make all the strategic decisions you want, but if nobody does them, it really doesn't do anything. I'll feel better because, you know, I've made a bunch of decisions, but it's not really going to work. We need to agree on how we're going to work together.

Then another suggestion came up that said, geez, you know, we need a morale-building focus. We need an effort to just build morale. And I can remember asking, so, what is that? Do we, like hire cheerleaders? Or do I need to put up a bunch of posters that say Altitude is Limited by Attitude? You know, what does it look like to you?

And that's basically what it comes down to, you hire people to go around and do the Rah-Rah, and I've never been very receptive to the Rah-Rah thing myself. And my point was the best thing to build morale in this company is to have a successful company because 90% of people want to go home at night being able to brag to their spouse and kids about what they accomplished that day. And if you can put them in a position where they're not just paid well, but what they're doing is self-fulfilling work, and it's part of a successful enterprise, that's what will make people feel good. And it worked. As the

company became more and more successful, more people were proud to work at Honeywell. It actually all worked like we hoped it would.

JULIA LA ROCHE: And I think, if I recall, you tied compensation to culture. So how did you get the compensation formula right? Because this is something that I feel like a lot of companies struggle with.

DAVID COTE: Well, I never tied it directly to, say my feeling about culture and what they were doing. What I did do is tie it to their behaviors. So we would assess people, give them an appraisal every year, not just on their actual performance in the job, but on their twelve behaviors to say are you behaving consistent with what we outlined in the twelve behaviors? And that would impact comp.

The other thing it would do is when it came to determining compensation, I focused a lot on what I called fairness and said I'm not tying this to formulas. I don't care if the formula means that you get a 200% payout. If I don't feel like you deserve it, you're going to get 90%. And I'm going to do this based on what I think is fair looking at what did you do in the short term? What did you do to support investment for the long term? How did you treat your people, your employees? Did you exhibit the twelve behaviors the way you needed to? With whatever your performance was, was it just because your industry did really well or your industry did really poorly? I didn't want to ding people for

that.

And I always said it's going to depend upon fairness, which in the beginning is tough for people to get used to because they like the formula. They love being able to argue for a shorter yardstick in the formula, you know, before the year begins. The rating agencies love the formula. As stupid of an idea as it is, they still love it. And at the end of the day, fairness mattered. And I think it's just how human beings are. Fairness matters to people. So I always wanted to be able to look someone in the eye and say, yes, I know the formula said you were not supposed to get a bonus this year, but we way overestimated how good your industry was going to be, so I'll tell you what, we'll give you 70% of what you got last year.

Or by the same token, I'd look at someone and I'd say, yes, okay, you made your numbers, but you didn't invest in the stuff that we talked about. You pulled back on the things that we needed to get done for the seed planting for the long term. So I'm not going to give you everything that you would have gotten in the formula. And I was always able to look people in the eye and over time that worked just fine. Everybody got used to it and said, yes, okay, the guy is fair. The company is going to be fair. And it's the right way to look at it.

It makes, even during the course of the year, it creates a different culture because if

you're maxing out on a formula already, do you say, okay, let's double max out? No, you say save some of it for next year. If you're out of the money, do you say, well, look, the company, we've just got to do it even though we're not going to get paid for it. You say no, wait until next year. I wanted people every single day working.

JULIA LA ROCHE: David, I think we probably have time for one more question so I'll try to make it a good one here.

DAVID COTE: And I'll try not to go so long this time, Julia.

JULIA LA ROCHE: I told you I had a lot of Aha! moments reading your book and took a lot of notes. What was the moment in your career that was the most influential for you, that things just sort of clicked for you? I know it's a broad question, but what was that moment for you?

DAVID COTE: Well, I'd say I had one big epiphany and then several small ones after that. So the big one, as you probably read, was when my wife told me she was pregnant and I was like 22 years old and running a punch press and realized that I didn't have enough money to support myself, never mind a family. Man, that scared the bejesus out of me. It completely changed my life. I went back to school, did everything I was supposed to, and that really scared me.

Along the way, I'd say probably the better changes as I went along were when something bad happened, so all of a sudden I had to have a career change because however I thought my career was going to work, that wasn't going to work anymore and I had to do something different. I'd say the last one was probably, not the last one chronologically, but the last one I'll talk about is I was about 40 years old before the thought occurred to me that I could probably be a CEO.

And I never had the intention of doing that. I usually just wanted a job that paid more than the last one and hopefully did something interesting like get into general management. And it wasn't until I was about 40 when I first said, gee, you know, I think I could actually run a company. Maybe not a big one but, you know, I think I could run one and I'd like to think about that. Little did I know how things would turn out.

JULIA LA ROCHE: Certainly. Little did you know. Well, David Cote, former CEO of Honeywell, the Chairman of Vertiv Holdings, and also the bestselling author of *WINNING NOW, WINNING LATER*. Thank you so much for your time.

DAVID COTE: It was fun. Thank you.

VICE CHAIRMAN MICHAEL O'NEILL: Thank you very much, David. That was a perfect interview, Julia. Really very, very interesting. We're delighted that you took the time to

do it. A quick word about upcoming sessions. Next week we'll be hosting the first two events in our Member Conversation Series. These are off-the-record member-only conversations. They'll be peer-led and they'll focus on timely social, economic and political issues. Our first topic will be Racial Equality and fellow member, Nili Gilbert, co-founder and portfolio manager at Matarin Capital, will join us to lead the conversation.

More great speakers to follow including Charles Rivkin, Chairman and CEO of the Motion Picture Association of America. That's on August 12. John Barry, the New York Times bestselling author of the very topical, *The Great Influenza*, on August 18. And Larry Kudlow, Director of the United States National Economic Council on September 17. As our calendar continues to grow, please be sure to monitor our website and we will do our normal job of communicating with you by email. As always, we encourage you to invite guests to our events.

Once again, thanks to the two of you and thank you to all the members for joining us.

DAVID COTE: Nice job, Julia. Thank you.