Honeywell and EY Digital Compliance Scorecard Enhances Communication and Drives Improvement
A globalized economy, increasing regulatory demands, and an evolving risk landscape are putting unprecedented pressure on organizations across industries to meet the highest standards for compliance.

“We're starting to see industries outside of the traditionally heavily regulated ones, such as energy and the financial industry, now start to take an interest in developing more robust compliance efforts and compliance programs,” says Andrew Clark, a principal with Ernst & Young LLP's Forensic and Integrity Services.

Honeywell International is a perfect example. For years, the well-known multinational conglomerate, which specializes in aerospace, building technologies, performance materials, and safety and productivity solutions, invested heavily in compliance efforts and was looking to take the next step in becoming best in class from a compliance perspective. Honeywell had a variety of manual processes that the company wanted to automate and digitize to provide a more holistic view and to enhance transparency on its overall compliance performance worldwide, with the ultimate goal of delivering information more quickly to key stakeholders.

“There needed to be a way to effectively communicate to the board, and to our most-senior stakeholders, the effectiveness of our compliance system and status on a regular basis,” says Vic Miller, vice president, deputy general counsel, corporate secretary, and chief compliance officer at Honeywell. "However, the tools we had at our disposal at the time weren't effective in achieving that goal. They looked at individual data points, but they didn’t provide an overall comprehensive view of compliance.”

Eager to adopt a more proactive approach to achieving best-in-class compliance, Honeywell teamed up with EY Forensics professionals to develop a comprehensive compliance framework. The result: an entirely data-driven scorecard that not only provides a consolidated, centralized view of compliance for communicating effectively with senior leadership but enables Honeywell to drive year-over-year improvements in its compliance approach.

That's an essential outcome, says Anne T. Madden, senior vice president and general counsel for Honeywell: “Given the ever-increasing volume and complexity of data generated across many different compliance dimensions globally, it is critically important for us to have a digitally enhanced and data-driven solution designed to provide actionable insights that are tangible and meaningful.”

This case study examines the strategies Honeywell employed to produce a powerful digital solution consisting of a compliance scorecard assessment and the role that strong leadership, a knowledgeable consulting partner, proper prioritization, and immediate action played in sustaining positive change.
Learning the Universal Language of Compliance

As part of an effort to assess its risk exposure, Honeywell identified several key areas of compliance within its organization, ranging from anti-corruption to cybersecurity to insider trading. However, each area had its own regulatory structure and challenges, making it difficult to consistently assess exposure to risks across the business.

“You wind up with these deep silos and never benefiting from the leverage of a common operating system,” Miller explains.

Eager to establish a single set of standardized metrics, Honeywell looked to the U.S. Department of Justice (DOJ) and its guidelines for evaluating corporate compliance programs, Miller says. Honeywell borrowed these guidelines and added one of its own — digital transformation — a set of distinct measurement criteria for determining the adequacy and effectiveness of its compliance initiatives. In addition to digital transformation projects, these areas include audit, culture, investigations, mergers and acquisitions, policy and procedure, resources, risk assessment, third-party management, and training and internal communications.

“The Department of Justice articulated a universal framework for compliance that unites various compliance areas,” Miller says. As a result, he says, “our individual compliance leaders now have the ability to talk about what they do in a way that impacts others and in a way that other leaders can understand, even if their regulatory requirements are different.”

Tapping Into a Variety of Data Sources

With its key compliance areas identified and criteria set, Honeywell’s next step involved populating its assessment framework using accurate and high-quality data. Aggregating the data needed to effectively drive the risk assessment required accessing a wide range of sources and several million data points from across the organization.

To start, Honeywell asked compliance area directors to complete a tailored online survey to identify their most pressing compliance issues and their perceived risks of violating industry regulations. Designed to address the assessment framework’s key criteria, survey questions ranged from “How frequently do you conduct an audit?” and “Which employees are receiving training in compliance?” to “What types of information can be gathered from the company’s formal compliance hotline?”

To deepen its understanding of perceived risks, Honeywell also solicited verbatim responses from employees via one-to-one interviews. The comments from the surveys and interviews were captured in the EY technology platform EY Virtual. In addition, documents describing Honeywell’s compliance processes and procedures were analyzed within the platform and provided important information. Another valuable asset: EY subject matter resources. These individuals collaborated with Honeywell’s IT teams and data source owners to determine the feasibility of extracting meaningful insights from various data sources, says Eugene Kim, Ernst & Young LLP Forensic & Integrity Services senior manager.

After obtaining valuable and insightful data sources, Honeywell cleaned and scrubbed data sets gathered from online surveys, employee interviews, and program manuals, seeking to ensure the highest levels of consistency, reliability, and accuracy. But while internal data can reveal the strengths and weaknesses of a particular company’s compliance programs, many organizations prefer to compare their compliance program elements, structures, and processes to the external practices of their industry peers. For that reason, the EY team augmented Honeywell’s internal data with publicly available industry data and its own wealth of perspectives from around the world.

“By having a partner with a broad understanding of the marketplace, we gain access to peer data that allows us to know where we stand and how we can improve our compliance efforts as an organization,” Miller says. “That’s extremely valuable in terms of driving focus.”

Honeywell’s current risk assessments rely on more than 40,000 aggregated data points, says Jillian Charles, the company’s vice president and general counsel for antitrust and anti-corruption.
analyzing these fully integrated internal and external data sources, Honeywell can assign ratings to each of the company’s 10 distinct measurement criteria in the form of a scorecard.

**Making Sense of All That Data**

As it is, explaining the effectiveness of a corporate compliance program to nonlegal teams can be a challenging endeavor. At the same time, data analytics leaders often struggle to convert the output of highly complex algorithms and computer models into understandable business terms. To address this challenge, Honeywell activated scorecards within the EY Virtual modular platform. This provided easy-to-decipher, integrated dashboards to display the effectiveness of corporate compliance initiatives through a heat map based on performance success. The approach provided easy-to-decipher, integrated dashboards to display the effectiveness of the company’s corporate compliance initiatives through a color-coded heat map using a simple red, orange, yellow, or green box, depending on performance success. The colors indicate the risk rating for each area of risk and compliance: red for “basic,” orange for “evolving,” yellow for “established,” and green for “leading.”

The initiative offered a major improvement over digging through onerous and complex spreadsheets, says Jeremy Osinski, a principal in Ernst & Young LLP’s Forensic & Integrity Services who specializes in forensic data analytics and data science. “Honeywell’s digital scorecards really help make the data consumable and quickly actionable to users — both senior-level executives and representatives from various Honeywell business groups who are seeking to dive into their specific data in detail,” Osinski says.

Honeywell accomplished that design feat by taking an iterative approach to developing its digital scorecards. Potential users were solicited for feedback throughout the process to optimize design features and functionality. What’s more, the customized scorecards, which are fully integrated into EY Virtual, cater to the unique needs and capabilities of two distinct audiences: senior executives, who can read quick summaries of compliance efforts and track their progress, and data analysts, who can take deeper dives into compliance program results and perform more exploratory tasks.

**Reaping the Benefits of Assessment**

To date, Honeywell has created more granular, data-driven modules featuring dashboards focused on two of its many compliance areas: anti-bribery and anti-corruption, and integrity and compliance. As a result of implementing these modules, the company is already experiencing significant benefits, including enhanced communication with key stakeholders and the ability to chart year-over-year progress.

In the past, Charles says, antitrust and anti-corruption initiatives sounded more like “a dark art” to nonlegal stakeholders or executives from other compliance areas. “There wasn’t consistency, there wasn’t a common thread, and there wasn’t a framework that enabled us to speak across compliance areas,” she says.

Fast-forward to today, when Honeywell’s dashboards provide a common language for addressing compliance concerns, regardless of rank, compliance area, or expertise. “When nonexperts in antitrust speak to me, they often ask, ‘How do you know you’re doing it right?’,” says Charles. “This framework allows me to interact with board members, or C-suite nonlegal experts, and really communicate with them in a meaningful way that’s fairly simple — in red, orange, yellow, and green little boxes representing consistent and consumable heat maps across our business areas.”

Indeed, dashboards are particularly useful when interacting with business teams, adds Charles. “This is what they’re used to,” she says. “Now you’re taking your world and putting it into a framework and language from a subject matter standpoint, but in an understandable and visualized way.”

That’s not to suggest, however, that Honeywell’s dashboards offer only a cursory look at compliance program effectiveness. Within EY Virtual, stakeholders can also flag areas in need of improvement and delve deeper into potential causes of poor performance by bringing together different data sets. For instance, clicking on a figure denoting a particularly high number of incidences of expense anomalies may reveal telling details, such as where the majority of these cases are occurring, when these cases are occurring, and additional factors that are most likely to contribute to increased risk exposure.

In addition to enhancing communication among various stakeholders, Honeywell’s compliance assessment scorecards provide a comparative analysis of the company’s progress in meeting key performance criteria. “That’s one of the top benefits of this scorecard process,” Miller notes. “We’re able to see year-over-year improvements.”

For example, users can see how many times Honeywell’s 110,000 employees worldwide anonymously or confidentially reported allegations of corporate code-of-conduct breaches last year compared with how many have reported allegations this year, as well as the
types of allegations being made. By bringing attention to areas of compliance exhibiting signs of waning performance, Honeywell can better prioritize where to invest the greatest time and effort, Miller says: “We, as a compliance team, can make the decisions about where we need to prioritize our time and resources.”

With specific targets in mind and resources properly allocated, Honeywell has successfully identified several areas of improvement year over year, between the second and third years of scorecard use, “simply by analyzing responses and seeing where there were opportunities to implement action plans,” Miller explains.

Less tangible, but equally as significant, is the potential impact of Honeywell’s scorecards on raising awareness around compliance risks among nonlegal departments. “Scorecards are a credibility-enhancing project for our department,” Miller says. “It’s really created a discussion around legal topics, which is often hard in a business environment” — and which has fostered greater trust and transparency among disparate departments.

Overcoming Data Pain Points

No question: The approach provides plenty of advantages, including improved communication, annual progress, and enhanced credibility. But designing and executing scorecard assessments to achieve those advantages requires overcoming some considerable challenges — primarily data-related ones.

Certainly, a general counsel can outline the patterns of misconduct and other red flags that can lead to compliance vulnerabilities. Similarly, data scientists are adept at mining data and designing technology solutions to accommodate varying degrees of technical sophistication and legal expertise. But without the right data sets, a scorecard is simply a placeholder for information.

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EUGENE KIM
FORENSIC & INTEGRITY SERVICES SENIOR MANAGER, ERNST & YOUNG LLP

A Single Set of Standardized Metrics

Using the U.S. Department of Justice’s guidelines for evaluating corporate compliance programs as a starting point, Honeywell identified 10 areas to use as criteria for assessing the effectiveness of its own compliance initiatives:

• Audit
• Culture
• Digital transformation
• Investigations
• Mergers and acquisitions
• Policy and procedures
• Resources
• Risk assessment
• Third-party management
• Trainings and internal communications

The challenge for compliance leads, says EY team member Kim, is identifying the right data sources that should be used for a dashboard and figuring out how to leverage that data in a near real-time way. “That involves talking to data source owners and explaining to them the purpose of your analysis,” he says. “Being able to explain the type of data you need and the overall mission of your program can really help you gather quality data and recruit data source owners onto your team.” In fact, Kim adds, it’s not uncommon for data source owners to suggest valuable auxiliary sources of data that might not have otherwise been considered.

Another data-related challenge: resisting the urge to assign meaning to a scorecard without thoroughly understanding the many variables that factor into a rating. “The biggest challenge is understanding what the data really means,” Kim says. “When compliance teams look at our scorecards, there are many assumptions that come into play.” For example, an increase in employee travel expense anomalies may reflect a sudden change in corporate policies that employees are unaware of or signal an uptick in activity in a jurisdiction known for compliance violations. For that reason, Kim recommends that users regularly connect with process and data owners to review factors that can trigger certain types of events or produce potential outliers that may skew results and produce misunderstandings.
Other times, compliance area leads may discover the need to drop data altogether. Kim cites an instance in which Honeywell sought to integrate certain transactional data into a risk assessment but discovered that “the quality of certain historical data wasn’t there to provide insightful information,” he recalls. In its place, the team leveraged text data from customer relationship management and similar systems.

In the end, Kim says the company omitted the data altogether — a wise decision, but one that some users may find difficult to make in today’s data-centric universe.

Technology solutions are also limited in terms of the value and insights they’re capable of providing organizations. For instance, if a compliance group receives a low score on its processes-and-policies criteria, the compliance lead will likely want to pinpoint the source of the bottleneck. The problem: Such granularity isn’t always possible.

Nor are IT teams always eager to accommodate the data demands of general counsel. “If you’re in a commercial enterprise, most resources are dedicated to commercial operations and activities for meeting business goals,” says Liban Jama, a global client service partner with Ernst & Young LLP and former federal regulator. “Compliance and legal obligations are incredibly important, but the technology support and data analytics teams responsible for that are often in need of some supplemental assistance, particularly around identifying and mining data through the lens needed from a compliance and legal perspective.” Failure to provide those additional resources can result in gaps in data management so that it never lives up to its full potential, he warns.

Putting Best Practices Into Play

Fortunately, Honeywell has adopted strategies that have helped the organization overcome these challenges while achieving compliance wins.

Just ask Margaret Magill, vice president and general counsel for cybersecurity and investigations at Honeywell. Due to limited time and resources, Honeywell compliance leads must carefully prioritize their efforts to improve scorecard results, Magill says: “Not every compliance area needs to be at the same level of maturity because the risk to the company for each of these compliance areas is not the same.” For example, changing regulations may necessitate an immediate shift in focus to investigations despite achieving high scores for this criterion.

There’s clearly a desire for compliance teams “to chase green,” says Charles, referring to color-coded scorecard designations. But it’s important to remember that low-scoring areas of compliance aren’t necessarily indicators of poor performance, she says, adding that other factors — including low prioritization and a lack of data — can contribute to substandard scores.

However, that’s not an excuse to accept the status quo. Rather than focusing on ratings, the goal is, as Magill puts it, “for everyone to be on a journey of maturity.” In fact, she says, following the completion of Honeywell’s first scorecard assessment, “each of the compliance area leaders took away an action plan for what they needed to do in terms of raising the maturity of their compliance program.”

Scorecards can also serve as a powerful incentive for change among employees, if leveraged correctly. Charles took such action after being dissatisfied by receiving a poor risk assessment rating. “Once a week, I made a significant data-driven enhancement to my risk assessment program based on this scorecard,” she says. Doing that not only brought about positive changes but provided quantifiable evidence of improvement.

After all, Charles notes, “Scorecards aren’t just an exercise where you check a box. They can drive forward what we need to do next.”

Integrating the Human Factor

But for all the attention paid to colored boxes and data-driven ratings, Honeywell also makes certain that its compliance leaders apply a healthy dose of human skepticism and critical thinking when evaluating scorecards and planning next steps.

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JILLIAN CHARLES
VICE PRESIDENT AND GENERAL COUNSEL,
ANTITRUST AND ANTI-CORRUPTION, HONEYWELL
“Honeywell is an evolving organization,” says EY team member Osinski. “There are many exciting changes occurring in its environment.” As a result, compliance leaders must carefully “analyze whether a trend detected on a scorecard is truly a trend or if it’s simply a byproduct of some organizational change or some other determining internal factor,” he says. One way that Honeywell accomplishes that is by enhancing its scorecards every quarter to track a trend’s trajectory over time, providing an indication of its life expectancy.

Similarly, Charles says, Honeywell’s compliance teams must view risk assessments as living documents with specifics that can change over time rather than as static goal posts. “Scorecards evolve because the business evolves and because the guidelines from the government evolve,” she says. The good news: The rise of digital transformation initiatives and the COVID-19 pandemic have taught organizations such as Honeywell how to pivot quickly in the face of market fluctuations, new circumstances, even regulatory upheavals.

There’s also a predictive element in using scorecards to improve communication among key stakeholders and achieve ongoing annual improvements in compliance. “If your scorecard is grading below the average, it’s a warning that if the Department of Justice looks at your compliance program, you will score below average,” Charles warns. “And if you’re not hitting a regulator’s floor, you can easily predict that you’ll experience less-than-desirable outcomes. The scorecard isn’t a surgical tool, but it will tell you when you need to raise the water — when you need to lift that boat because you’re riding too low.”

But alarm bells are only effective if the right people are in place to react and rally the troops in response. “Tone starts at the top,” Jama says. “If leaders prioritize compliance, the change management discussion becomes much easier.” For that reason, Honeywell created the position of process excellence leader to manage the scorecard process for each of its compliance areas, Miller says.

Highly qualified and trained leadership can also evangelize the long-term value of achieving greater compliance and participating in scorecard assessments, even when doing so requires facing unpleasant facts. “Sometimes there’s hesitancy among stakeholders, who might say, ‘Well, if we start mining data from a compliance perspective, what will we find?’” Osinski notes. Fortunately, he adds, leadership can encourage buy-in from people throughout the organization and “get over the hump of being afraid of examining data in terms of what it might uncover.”

One way that leaders can accomplish this is by letting employees know that “it’s OK to be a red box” in the sense that poor ratings are actually opportunities for seismic change, Osinski says. “Scorecards are not static reports intended to be filed away,” he adds. “Rather, we use these learnings to help increase our compliance in different areas.” For a compliance program, knowing the existing weaknesses can also prove to be an asset as this can highlight where potential gaps may exist and where positive change can be made.

Clark agrees, noting that taking rapid action on scorecard results sends an important message to employees that it pays to embrace transformation. “It puts everyone on notice that you take compliance and creating an environment of good, ethical, and sound behavior seriously, and that there’s weight behind these scorecards,” he says. “It’s not just lip service or something for top-level executives to talk about in the news. Achieving compliance is really a part of the fabric of an organization.”

Looking Ahead: Ongoing Compliance Improvement
Honeywell plans to continue creating dashboards to better communicate its compliance initiatives with cross-functional teams across the organization. While its criteria for measuring these initiatives is unlikely to change, Honeywell is currently considering involving employees earlier in the process to gain their suggestions for how dashboards can be used before data sources are selected, Kim says, adding: “These brainstorming sessions will help us create a better product at the end of the day.”

Honeywell is also examining scorecards in the context of corporate culture, brand reputation, and employee education. “Having sound compliance provides employees with knowledge about an organization’s culture and ethos and how it aligns with workers’ values,” Clark says. “That not only helps organizations stay out of trouble but can also impact strategy and how organizations interact with stakeholders, educate a board or group of executives, or deal with the marketplace.”

In fact, Clark is optimistic that scorecards will eventually empower employees to make good decisions, being fully aware that Honeywell is prioritizing compliance initiatives, tracking progress, and taking remedial action when necessary. The result isn’t simply a temporary salve for transgressions but, as Osinski puts it, “an approach to compliance that’s truly sustainable for the future.”

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SPONSOR'S VIEWPOINT

Transforming Risk Assessment for Today's Complex, Fast-Changing Environments

How should enterprises assess compliance risks today? In a world of changing business models, explosion of data, increased regulation, and enforcement, the integrity of an organization becomes the most important driver for ethical business.

Each organization has the responsibility to evaluate the potential for compliance issues to occur as well as determine how well the company is managing its risk exposure. Historically, this was a subjective and qualitative exercise. But as we attempt to address today's increasingly complex compliance landscape, it has become apparent that an objective, quantitative approach is garnering increasing success in detecting risks across industries. There is a need for a more comprehensive view of compliance risk that is data driven, integrates disparate data sources, and can identify trends and quantify company-specific risks — in short, a new, holistic style of compliance risk assessment.

A data-driven assessment can include tools for better managing regulatory expectations and safeguarding against a risk universe that includes economic crime, bribery and corruption, sales agent monitoring, and sanctions. The top gaps we have observed in an organization's ability to combat fraud risks have included incomplete assessments, siloed incident response, poor transaction monitoring, and insufficient levels of awareness, communication, and training.

A compliance risk assessment is intended to be both a qualitative and quantitative way of evaluating a company's susceptibility to compliance risk areas and the associated impact should such an incident occur. Honeywell is at the forefront of data-driven compliance risk assessments and how they can be used to detect, prevent, and remediate these risks. It has been exciting to see its team significantly move the needle forward. In conjunction with EY professionals, Honeywell's team has developed specific compliance analytics by leveraging the EY library of proprietary profiling and intelligence techniques to their data to drive analytics results. The result: a configurable and deployable compliance scorecard using the EY secure, web-based analytics platform.

There is a need for a more comprehensive view of compliance risk that is data driven, integrates disparate data sources, and can identify trends and quantify company-specific risks.
We advise that business leaders aiming to use data-driven compliance risk assessments to transform their compliance programs work toward the following goals:

1. **Improve employee awareness about compliance.**
   - Clearly communicate that the company takes its compliance obligations seriously.
   - Provide employees with visibility into the process and help them feel empowered.
   - Set the tone at the top — but strive to ensure that all employees, at every level, also view compliance as a core part of their responsibilities.
   - Offer training on mechanisms available for detecting and reporting fraud and inappropriate activities.

2. **Identify activities most likely to be susceptible to compliance risks.**
   - Allow process owners to focus their attention on intentional risk scenarios, as opposed to just performance improvement opportunities.
   - Partner with the compliance team to ensure cross-functional alignment.

3. **Develop plans to detect, prevent, and mitigate compliance risks.**
   - Drive subsequent procedures that may lead to refined or new controls.

Undertaking those actions will go a long way toward helping an organization reach an effective, holistic approach toward risk assessments and compliance management.

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