

# Building Trust

LEADING CEOs SPEAK OUT:  
HOW THEY CREATE IT,  
STRENGTHEN IT, AND SUSTAIN IT.



## Alexander M. Cutler

CHAIRMAN AND CHIEF EXECUTIVE OFFICER  
EATON CORPORATION

*“There is no pride in ill-gotten gains.  
Just as any victory won through dubious means is hollow,  
so too are business results achieved  
through unethical behavior.”*

– Alexander M. Cutler

## DOING BUSINESS RIGHT

**T**he broad subject of “doing business right” is the essence of corporate governance and ethics. It is all about a higher standard, a standard that is, in fact, the soul of any values-based enterprise. It is this soul that defines and differentiates an enterprise, and so often is the very reason employees want to dedicate themselves to that organization.

I am proud that Eaton Corporation is a values-based enterprise. We all want to be proud of where we work, just as we want to be proud of our families, proud of our communities and proud of our personal and collective accomplishments. We also want to be winners, or part of a winning organization. But winning alone is not enough. We want to be proud of how we have won.

Eaton employees have heard me say repeatedly that I want us to achieve great results. And I always say in the next breath that we must care about how we get those results. There is no pride in ill-gotten gains. Just as any victory won through dubious means is hollow, so too are business results achieved through unethical behavior.

Any conversation about doing business right has to be grounded in the values and beliefs of the organization, or it can easily turn into a series of statements about policies, expectations and guidelines. It's impossible for any corporation to write a rule book comprehensive enough to cover every conceivable situation where integrity might be put at risk. In a values-based organization, your values establish the boundaries. Decision-making when faced with an ethical dilemma is easy: Do the right thing. Always. It is the practical application of the company's values and beliefs every day that makes a real difference to the success of the enterprise.

Reflecting on our own history, we have had more than a few opportunities to test our beliefs. And I know that our convictions have been strengthened by having experienced and dealt with these situations.

**W**e had an issue many years ago where we were doing some advanced product development work for a significant global OEM (original equipment manufacturer) customer. There were established timetables for development, testing and shipment, and our customer was expecting the fully tested product to be shipped at the end of a particular quarter. When it came to the end of that quarter, not all of the testing had been accomplished. Two senior operating managers in the United States falsified the test results and thereby misrepresented the product's readiness for shipment. Both signed the reports willingly.

Upon investigation, we learned that they felt they should do this in order to meet the targeted shipment timetable, because they thought this was what both Eaton and the customer wanted. Yet, clearly, this was a violation of Eaton's quality and ethics policies. We terminated the two managers. Both had been high-potential, highly promotable people.

We learned a lesson from this incident—that integrity can break down at any level, no matter how much you preach and teach ethics. These were respected managers who had performed well for years, but they made a serious, serious mistake in judgment.

The safety of Eaton products is often critical to the safe performance of other products. If our products don't perform properly, people may be put at substantial risk. Our overarching concern is always to meet the highest levels of expectation and scrutiny. We will not tolerate any compromise of our standards for quality.

Nor will we knowingly violate any laws or regulations in any country. I say "knowingly," because mistakes sometimes do happen. What's important is that we act immediately to correct the situation. For example, in 1999, we unknowingly violated a U.S. Department of the Treasury regulation. One of our U. S. divisions shipped products, valued at less than \$17,000, to a distributor in Switzerland for eventual delivery to a customer in Serbia. At the time, U.S. export-control laws restricted U.S. sales to Serbia.

Before shipping the products, our business unit followed established corporate procedures to determine whether the sale was permissible under America's export-control laws, and was incorrectly advised by a member of Eaton's corporate staff that the shipment was appropriate. We identified the mistake following additional internal review and Eaton submitted a voluntary detailed disclosure, with supporting

documents, to the Department of the Treasury's Office of Foreign Assets Control. Even though the company faced a possible fine for the improper export, we made the voluntary disclosure because it was the right thing to do.

**T**his is one small example of the many challenges that companies confront while doing business in today's global marketplace. At Eaton, we do not practice what I call "geographic" ethics. We have one set of ethics worldwide. And if the laws and regulations of a given country differ from our own company standards, we comply with whatever requirement represents the higher standard of behavior in that situation.

It's common knowledge that governments in certain parts of the world demand substantial payments in exchange for the conduct of business. This is unacceptable geographic ethics, which is not tolerated at Eaton. I'll give you an example. Several years ago, we had a facility that encountered piracy of our technology, theft of other intellectual property and the sale of our products into gray markets. Additionally, local businessmen made copycat versions of Eaton products and threatened to label them with Eaton brand names unless we paid them not to. The local government repeatedly approached us for payments, without which it would not pursue or prosecute these matters. It became clear that we were not going to be able to do business in an environment where the ethics of the local officials were so different from our own. So we abandoned the facility and our business in that country, at a not-insignificant cost.

I firmly believe that operating under a single code of ethics not only strengthens our own organization, but also those organizations

that do business with Eaton. When “a rising tide lifts all boats,” the situation changes. Can one company change the world? No, but it *can* chart its own ethical destiny.

In conflict-of-interest situations, I think a company clearly controls its own destiny. Conflicts of interest can arise in any aspect of business life and therefore present multiple opportunities to choose the ethical course. Such conflicts may involve everything from personal knowledge, to relationships, to business decisions and everything in between. Problems in this area often result from an unwillingness to acknowledge the conflict of interest, rather than a lack of recognition of the potential for a conflict. On the other hand, occasionally an individual fails to understand that a potential conflict even exists. That lack of sensitivity is truly problematic when you’re trying to run an ethical enterprise. And sometimes what we would consider conflicts of interest are ordinary business dealings in other cultures.

China, for example, is a country where some people may see conflict-of-interest issues differently than how these matters are viewed in other countries. We’ve learned a lot about operating in that region and are very explicit about our expectations. Eaton had a plant manager in China, a Chinese national, who fell afoul of our prohibition against conflicts of interest. Although his actions may have been acceptable to some in that country, they were not acceptable to Eaton. He replaced the supplier that was providing a commodity to our plant with a supplier in which his wife had a financial interest. It was quite clear that his decision had not been based on quality or price issues with the previous supplier.

Until then, we had been very pleased with this executive’s performance. He was a highly valued employee in whom we’d invested

considerable training, including almost four years of cumulative operations experience in the United States and China. Despite our investment in this employee, we had to let him go. We simply could not allow his action to stand or to appear to be endorsed when it was so clearly a violation of our conflict-of-interest standards.

We also expect our business partners and suppliers to uphold Eaton's standards of ethical conduct. Doing business right is not a subject that any of us can delegate, nor can we outsource ethics. I cannot conceive that we could ever be comfortable doing business with a supplier that employs child labor, or with a business partner that bribes government officials. Our Code of Ethics (*see Appendix*) transcends all we do, and we should expect it to have a positive influence on all our interactions.

In a diversified industrial manufacturing company like Eaton, we have thousands of business relationships around the world that touch every part of our enterprise. When a supplier or business partner acts without integrity, we trust that our employees will make it clear that if the unethical action does not stop, the business relationship with Eaton will. When acting within the scope of our employment, every single one of us *is* Eaton.

Of course, we have had our share of ethical lapses since Eaton's founding in 1911. Like that of every company, our workforce comprises human beings, and people make mistakes and sometimes do bad things. Over the years we have become aware of situations where employees have defrauded the company through the use of a variety of different accounts, through receiving cash and not depositing it, by stealing company property and selling it for their own benefit, and by committing other serious transgressions. In these cases, we have acted very

directly and very quickly to terminate the employee, sometimes filing criminal charges. At Eaton there are no one-, two- and three-strike offenses in situations like these. One strike and you're out.

**L**ike Eaton, there are many other companies that hold to high standards of integrity. Years ago, the strategic planning book for one of our businesses was stolen and sold to a competitor. To that company's credit, its chief executive officer, upon receiving the book, immediately put it in an envelope, sealed it and sent it back to us. He said that neither he, nor any of his associates, had looked at it, and I trust his representation. I would expect the same of any Eaton employee in similar circumstances.

There is absolutely nothing wrong with seeking competitive information that is in the public arena. Rigorous competitive assessment is good business. If you work at it, you can put piece one and piece three of public information together and figure out what piece two is. But at Eaton, we absolutely do not steal data, and we do not take or use data that has been inappropriately or illegally procured. There is everything wrong with paying for illegal access to confidential information, just like there is everything wrong with debriefing employees you hire from another company to gain confidential information about that company, or to appropriate that company's intellectual property.

There are as many ways to violate a company's integrity as there are people and circumstances to do it. All the ethics codes and governance charters in the world cannot overcome the actions of a single misguided individual. But our company's set of beliefs and values do form the basis for establishing expectations, evaluating situations and taking immediate actions in order to address ethical issues. Reinforcement of

the company's beliefs is critical to ensure that our values-based culture remains vibrant, and that Eaton remains an enterprise about which we all can be proud.

Yes, we care about results, but not at the expense of integrity. We run Eaton as an integrated operating company that uses the standardized tools and processes of the Eaton Business System, such as the Eaton Lean System and PROLaunch, to achieve breakthrough results. Our Code of Ethics, the Eaton Philosophy and Values, our Mission and Vision, all comprise the foundation of the Eaton Business System. It is that foundation of beliefs, that ethical expectation of how business will be conducted, that makes the operational “how,” operational.

I believe every business leader—whether in Eaton or any other company—needs to emphasize the expectation of “doing business right,” and to act quickly and decisively when ethical values are violated. In a values-based enterprise, ethics and governance are daily considerations that permeate decision-making and action. Few, if any, principles are more important to the long-term viability of an organization. And there is no truer window into a corporation's soul.

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Alexander M. Cutler

CHAIRMAN AND CHIEF EXECUTIVE OFFICER  
EATON CORPORATION

*Alexander M. Cutler is chairman and chief executive officer of Eaton Corporation, and a member of its board of directors.*

*Cutler, who has 28 years of service with the company, began his career with Cutler-Hammer in 1975. After the acquisition of Cutler-Hammer by Eaton, he served in a variety of progressively responsible management positions. In 1989, he was named president of Eaton's Controls Group. He was elected executive vice president of Operations in 1991, executive vice president and chief operating officer of Controls in 1993, president and chief operating officer of Eaton Corporation in 1995, and assumed his current position in September 2000.*

*He received his B.A. from Yale University and an M.B.A. from the Amos Tuck School of Business Administration at Dartmouth College.*

*Cutler is a board member of KeyCorp, Axcelis Technologies, Inc., the Amos Tuck School of Business Administration at Dartmouth College, The Loomis-Chaffee School, the Greater Cleveland Roundtable, Cleveland Tomorrow, The Electrical Manufacturers Club, and the Musical Arts Association. He is the 2003 Campaign Chairman of United Way Services, Co-Chairman of The Cleveland Commission on Economic Partnerships & Inclusion and a member of the Yale University Development Board.*

*Cutler has served as a board member for a number of organizations, including the Yale University Alumni Fund, the National Electrical Manufacturers Association (where he also served as past chairman), the Visiting Committee of the Weatherhead School of Management, and the Greater Cleveland Growth Association.*

## EATON CORPORATION

Eaton Corporation is a global diversified industrial manufacturer that is a leader in fluid power systems; electrical power quality, distribution and control; automotive engine air management and fuel economy; and intelligent drivetrain systems for fuel economy and safety in trucks. Eaton has 51,000 employees and sells products in more than 50 countries. Eaton's businesses comprise four distinct segments. These are, by size: Fluid Power, Electrical, Automotive and Truck.

The Fluid Power business is a worldwide leader in the design, manufacture and marketing of a comprehensive line of reliable, high-efficiency hydraulic systems and components for use in mobile, industrial and aerospace applications. Mobile and industrial markets include earth-moving, agriculture, construction, mining, forestry, utility and material handling.

The Electrical segment is a leader in electrical control, power distribution, and industrial automation products and services. It provides customer-driven solutions that serve the changing needs of the industrial, utility, light-commercial, residential and original equipment markets.

Eaton's Automotive segment is a partner to the passenger car and light-truck industry. Principal products include superchargers, engine valves, valve train components, cylinder heads, locking and limited slip differentials, sensors, actuators, intelligent cruise control systems, tire valves, fluid connectors, decorative body moldings and spoilers.

The Truck segment is a leader in the design, manufacture and marketing of drivetrain systems and components for medium-duty and heavy-duty commercial vehicles. Eaton markets the "Roadranger System" — a complete line of drivetrain components and truck systems, including manual and automatic transmissions, clutches, driveshafts, steer and drive axles, trailer axles, tire pressure control systems and collision warning systems. Eaton is headquartered in Cleveland, Ohio.

*For more information, visit: [www.eaton.com](http://www.eaton.com).*

*Stock Symbol: ETN*