INTRODUCTION

Eaton Corporation is a power management company based in Cleveland, OH. Founded by Joseph Eaton in 1911, Eaton originally manufactured truck axels; today, the company produces over 900,000 different industrial components, employs 70,000 people globally, and generates over $13.7 billion in annual sales. Eaton's products and services include electrical components and systems for power quality, distribution, and control; hydraulics components, systems, and services for industrial and mobile equipment; aerospace fuel, hydraulics, and pneumatic systems for commercial and military use; and truck and automotive drivetrain and powertrain systems for performance, fuel economy, and safety.

Eaton has a reputation based on ethics. It has been recognized as one of Ethisphere magazine’s World’s Most Ethical Companies for five consecutive years. Eaton has also been ranked 16th in Newsweek's Green Rankings of America’s 500 largest companies and first among general industrial companies. Additionally, the company was also named one of the 100 Best Corporate Citizens by Corporate Responsibility Officer magazine. Eaton Corporation has also been one of the most profitable companies, with its stock price surpassing the average of S&P 500 for the past decade. Eaton prides itself on its values-based culture and believes that high performance is only achieved by “doing business right.”

EATON’S CODE OF ETHICS

At the heart of Eaton Corporation’s values-based culture is a detailed code of ethics. Eaton’s code of ethics covers behaviors that are both regulated and voluntary. Not only must every Eaton employee (including suppliers, contractors, and consultants) comply with the code of ethics, they have a responsibility to report any suspected violation of the code.

Eaton’s code of ethics covers 11 areas including obeying the law, integrity of recording and reporting financial results, respecting human rights, delivering quality, competing ethically, respecting diversity and fair employment practices, avoiding conflicts of interest, protecting assets, offering and accepting gifts, entertainment, bribes, or kickbacks, selling to governments, and making political contributions. The full code of ethics is included in Appendix 1 of this case.

Eaton's Ethics Guide provides a simple yet in-depth analysis of each topic and the company's overall philosophy. The guide includes explanations of policies, examples of right and wrong behavior in various situations (see Appendix 2), and who to ask for assistance or more information. For areas that are more complex, the company offers additional guides and policies. For example, Eaton’s Worldwide Gift and Entertainment Policy explains the policy in more detail, including to whom it
applies, the reasons behind it, and additional examples of right and wrong behavior. It also provides lists of when certain actions are appropriate, when they are never appropriate, and frequently asked questions.

Table 1. Eaton’s Global Ethics Quick Quiz

<table>
<thead>
<tr>
<th>If after reviewing Eaton’s Code of Ethics you are not sure about your choice, then ask yourself these three questions:</th>
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<tr>
<td>Would I be comfortable explaining my actions to my supervisor?</td>
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<tr>
<td>Would I feel proud telling my family and friends about my actions?</td>
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<tr>
<td>Would I be comfortable if my actions were reported in the news media?</td>
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**INTERNAL OVERSIGHT AND REPORTING**

To ensure that employees follow and value the code of ethics, Eaton supports its ethical culture at all levels of the company. Eaton’s Global Ethics Office is charged with the daily administration of the company's code of ethics. The purpose of the Global Ethics office is “to demonstrate that Eaton’s ethical standards are both current and at the highest level and that our Code of Ethics is fully known and followed wherever we do business.” The Global Ethics Office provides employees with the information, tools, guidance, training, and support they need to comply with the code of ethics.

All new employees, including those from acquired businesses, go through ethics training immediately after they join Eaton. In addition to the standard ethics training, Eaton developed an anti-corruption program for employees who are likely to encounter bribery. The company also has tools to help employees to monitor their own behavior before an ethical issue develops. For example, Eaton employees can record entertainment and gifts online, which fosters transparency.

At Eaton, employees are encouraged to report “any ethical concern or any potential or actual legal or financial violation.” Employees can get information or report misconduct to the Global Ethics Office via regular mail, email, or Eaton’s 24-hour Ethics and Financial Integrity Help line. In 2009, Eaton’s hotline received 600 complaints addressing issues such as workplace misconduct, theft, bribery, and fraud. Because Eaton is an international company, it also strives to make sure that all employees can report suspected violations. Non-English speaking employees can write emails and letters to the Global Ethics office in their native language, and Eaton will translate them. The company wants to ensure that violations do not go unchecked, domestically or internationally. “You get what you reward and encourage what you allow. If you allow people to skip steps and cut corners, you are encouraging people to push the limits,” said Rhonda Miller, manager of global ethics education and training.

Eaton emphasizes anonymity and non-retaliation in its reporting policies. Employees can choose to report their concerns either anonymously or openly; in the case of open reports, Eaton promises to maintain as much confidentiality as possible during an appropriate investigation. Eaton says that they will not permit retaliation or take disciplinary action against employees who report their concerns.
ETHICS IN ACTION

Although having a strong ethical culture is crucial, the true success of Eaton's ethical culture lies in its ethical behavior. CEO Sandy Cutler says, “Nothing is more important to Eaton's overall success as an enterprise than our ethical values. Our shared regard for the highest standards of honesty and integrity is our biggest strength.” The company puts ethics into action every day through its business practices and products.

SUSTAINABILITY

Sustainability is one of Eaton's main ethical emphases, both in its own business practices and in the products and services it provides to others. Eaton defines sustainability as “meeting the needs of today's world in ways that will help protect and improve tomorrow’s.” The company believes that sustainability is not only an ethical issue but also a way to make its business thrive. CEO Sandy Cutler says, “Companies that master sustainability, and leverage it as a competitive advantage, will emerge as the leaders in the coming decade.”

Eaton supplies products and services that help customers to reduce their energy consumption, including monitoring software, power management systems, high-efficiency transformers, hydraulic systems, and truck transmissions. These products help customers to increase the energy efficiency of buildings, vehicles, and machinery; conserve natural resources; shrink their carbon footprints; and reduce their environmental impact.

Eaton designs its own facilities to be energy efficient and is reducing its greenhouse gas emissions. The company also promotes sustainable manufacturing practices such as remanufacturing parts, using recycled materials, and collecting rainwater for industrial use. Eaton says, “We target those projects that deliver the greatest benefits—most cost-effectively—and we hold ourselves accountable for the results.”

An important part of Eaton's accountability is disclosing its goals as well as its progress toward achieving them. Eaton participates in several organizations and programs that make corporate sustainability results available to the public, including the Dow Jones Sustainability Index, the Carbon Disclosure Project, and the Global Reporting Initiative (GRI). In total, Eaton is a member of over a dozen American and international associations committed to reducing its environmental impact and operating responsibly.

STAKEHOLDER RELATIONSHIPS

As a large international corporation, Eaton must constantly balance its business with the needs of a diverse group of employees, customers, and shareholders.

Eaton strives to create a work environment that is healthy, safe, responsible, and respectful. In addition to industry standards for health and safety, the company has several internal programs designed to reduce work-related injuries. Eaton also believes in developing its employees through ongoing training and learning opportunities. Eaton uses online resources as well as its “Eaton
University,” a customized training program designed to help employees develop and maintain skills based on the philosophy of "just in time, just enough, and just for you." In order to gauge employee engagement and solicit opinions from all levels of the company, Eaton surveys its global workforce each year and uses the results to develop programs to improve its business and employee satisfaction.

Eaton continually solicits customer feedback in order to assess customer satisfaction. One of the most important ways the company gets customer opinions is through the Customer Relationship Review (CRR). Each year, Eaton conducts over 1,000 in-person interviews of customers, including at least one person from every major account. Eaton then generates and distributes an Executive Summary that summarizes the company’s strengths and weaknesses. In addition, Eaton also creates several smaller and more focused reports for employee use. Finally, the company makes action plans and constantly monitors its progress. Eaton’s code of ethics includes a section on the ethical treatment of customers and how employees can interact with them.

The company is committed to making money for its shareholders; however, the company’s commitment to ethics is its first priority. The code of ethics forbids unfair, unethical, or illegal competition, including the theft of trade secrets, collusion, or negative information. In addition, the company will not engage in unethical trade practices, even if it is a local custom. For example, Eaton once shut down a plant in the Philippines because the local mayor was cutting power to the plant in order to pressure the company to pay a bribe.

PHILANTHROPY

In 2010 Eaton donated over $7.3 million to charities and nonprofit organizations, including the United Way and disaster relief organizations. The company’s financial donations are based on a rolling average of annual profits so that they grow with the company. In order to best meet the needs of the communities in which Eaton operates, employees at local facilities help the company to choose the organizations that Eaton supports with both money and volunteer hours. Another important part of Eaton’s charitable giving program is matching the financial donations of employees and retirees.

CONCLUSION

Eaton Corporation has a company-wide commitment to ethical business. Eaton’s code of ethics provides a stable foundation for the company’s business decisions. Both the firm and its employees know what is expected from them and how to make difficult ethical decisions. The Global Ethics Office acts as a valuable guide when following the code of ethics, making legal and ethical behavior accessible to everyone connected with Eaton.

In addition to having strong ethical standards, Eaton backs up its business philosophy with ethical actions. It develops and sells products that help customers to reduce their environmental impact, and it strives to become a more sustainable business itself. Eaton treats its employees, customers, and shareholders responsibly. The company also gives back to local and global communities
through several charitable giving programs. Eaton’s ethical culture is the key to its reputation and global success.

QUESTIONS AND DISCUSSION

1. What steps does Eaton take to ensure that employees, suppliers, and partners follow its code of ethics?

2. Why is internal oversight and reporting so important at Eaton?

3. What are the costs and benefits of Eaton’s ethical culture and code of ethics to Eaton’s various stakeholders?

Sources:
Eaton Corporation requires that all directors, officers and employees of Eaton, its subsidiaries and affiliates (“Eaton”), abide by the fundamental principles of ethical behavior listed here in performing their duties.

1. **Obeying the Law**

   We respect and obey the laws, rules and regulations applying to our businesses around the world.

2. **Integrity of Recording and Reporting our Financial Results**

   We properly maintain accurate and complete financial and other business records, and communicate full, fair, accurate, timely and understandable financial results. In addition, we recognize that various officers and employees of Eaton must meet these requirements for the content of reports to the U.S. Securities and Exchange Commission, or similar agencies in other countries, and for the content of other public communications made by Eaton.

3. **Respecting Human Rights**

   We respect human rights and require our suppliers to do the same.

4. **Delivering Quality**

   We are committed to producing quality products and services. Our business records and communications involving our products and services are truthful and accurate.

5. **Competing Ethically**

   We gain competitive advantage through superior performance. We do not engage in unethical or illegal trade practices.

6. **Respecting Diversity and Fair Employment Practices**

   Throughout the world we are committed to respecting a culturally diverse workforce through practices that provide equal access and fair treatment to all employees on the basis of merit. We do not tolerate harassment or discrimination in the workplace.

7. **Avoiding Conflicts of Interest**

   We avoid relationships or conduct that might compromise judgment or create actual or apparent conflicts between our personal interests and our loyalty to Eaton. We do not use our position with Eaton to obtain improper benefits for others or ourselves. We do not compete with Eaton.
8. **Protecting Our Assets**

We use Eaton property, information and opportunities for Eaton’s business purposes and not for unauthorized use. We properly maintain the confidentiality of information entrusted to us by Eaton or others.

9. **Offering/Accepting Gifts, Entertainment, Bribes or Kickbacks**

We do not offer or accept gifts or entertainment of substantial value. We do not offer or accept bribes or kickbacks.

10. **Selling to Governments**

We comply with the special laws, rules and regulations that relate to government contracts and relationships with government personnel.

11. **Political Contributions**

We do not make contributions on behalf of Eaton to political candidates or parties, even where lawful.
APPENDIX 2: EXAMPLES OF ETHICAL SITUATIONS

The following examples of right and wrong behavior are selected from Eaton’s Ethics Guide as well as their supplemental policy guides:

**Right:** Custom dictates (and local law permits) government officials in a region receive holiday gifts from companies operating in their jurisdiction. Local Eaton managers discuss this with their Regional President to determine what, if any, gifts may be appropriate.

**Wrong:** In the scenario above, local managers elect to provide the government officials with US$50 gift cards to a local retailer.

**Right:** When Eaton purchases an old facility, the plant manager upgrades the facility to meet Eaton’s health and safety standards. When the new chemical supplier’s representative calls the production manager about dropping off some chemical samples, he is referred to the environmental health and safety manager for approval.

**Wrong:** A machine operator decides it is too hot to wear his safety glasses in the plant. The purchasing manager chooses a vendor knowing that the vendor employs child labor.

**Right:** An inspector is told by the production manager to ignore some of the inspection criteria to meet the shipping schedule, but she refuses and goes to see the quality manager for confirmation. A purchasing agent is offered cash by a vendor to accept incoming parts that do not meet Eaton’s quality specifications. He refuses and reports the incident to his supervisor.

**Wrong:** A production worker notices that parts from a supplier do not meet Eaton’s specifications. But on Friday, inventory is low and he is facing a deadline, so he uses the parts. Since nobody notices that an employee cracked a part when he dropped it, he places it back into production.

**Right:** A marketing manager attends a trade association meeting and the talk turns to how to cut back capacity to stabilize prices. He announces that the discussion is inappropriate and exits the room.

**Wrong:** A new engineer joining Eaton from a competitor brings along classified engineering specifications that could be useful. The engineering supervisor requests that he keep the competitor’s specifications to himself.

**Right:** A vice president promotes one of the best local female supervisors to department manager based on merit, even though it is unusual to promote a female in that locale.

**Wrong:** A female employee is prohibited from making a key customer presentation because her supervisor was told that the customer’s religion prohibits him from conducting business with women.