



Business Roundtable
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**United Technologies Corporation:
Running a Global Ethics and
Compliance Program**

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UNITED TECHNOLOGIES CORPORATION: RUNNING A GLOBAL ETHICS AND COMPLIANCE PROGRAM

In July 2003, Pat Gnazzo, vice president of Business Practices for United Technologies Corporation (UTC), sat at his desk in the company's Hartford, Connecticut, headquarters considering the challenge of integrating 46,000 new employees into UTC's global ethics and compliance program from the recently acquired Chubb plc, a United Kingdom-based leader in security and fire protection services. Although Gnazzo had faced many difficult issues since he had taken over business practices programs for UTC in 1995, this challenge was unique. Simultaneously integrating this volume of employees—who were situated in a variety of different cultures across the globe—would be a monumental task, especially since Chubb's ethics and compliance priorities were not on the level of UTC's. Gnazzo wondered where he should start.

History of UTC and Business Units¹

United Technologies Corporation was a \$31 billion global corporation made up of seven business units and a stand-alone research center, which supported research for all divisions. The business unit divisions were Carrier Corporation (climate control systems), Hamilton Sundstrand (airplane systems), Otis Elevator, Pratt & Whitney (airplane engines), Sikorsky (helicopters), UTC Power (hydrogen fuel cells), and the recently acquired Chubb (security and fire protection services). A global conglomerate with a total of 205,700 employees after the Chubb acquisition (138,000 based outside of the United States), UTC had over 4,000 locations in approximately 62 countries and did business in more than 180 countries. In 2002, 55 percent of UTC's total revenues came from outside the United States, and its net income was \$2.2 billion with assets totaling \$29.1 billion. In March 2003, UTC ranked 49th on the Fortune 500 list of companies.

Many of UTC's long-standing business units were originally formed by business pioneers, whose names were still associated with the products. According to George David, chief executive officer of UTC, "We invented every business we are in—and in a bunch of cases

¹ The information in this section was gathered from the United Technologies Corporation Website <http://www.utc.com>.

the name of the [business] is the name of the person who did the invention.”² Elisha Otis founded Otis Elevator in 1853; Willis H. Carrier invented air conditioning in 1902 and started Carrier Engineering in 1915; in 1920, Hamilton Aero Manufacturing was founded by Thomas Hamilton; Sundstrand Machine Tool Company by David Sundstrand in 1929; Igor Sikorsky founded Sikorsky Aero Engineering in 1923; and Pratt & Whitney Aircraft was incorporated in 1925. Chubb, a leader in security and fire protection services and UTC’s newly acquired company, originated in 1818 in the United Kingdom when Charles and Jeremiah Chubb patented their prize-winning detector lock.

UTC had a long and complex history. United Aircraft and Transport was formed in 1929, when Boeing Airline & Transport joined forces with Hamilton, Sikorsky, Pratt & Whitney, Chance Vought, and Standard Steel Propeller. That same year, the Research Center, the corporation’s central research laboratory, was established in Connecticut. Objections raised by the U.S. government in 1934 dissolved United Aircraft and Transport into three distinct units: Boeing Airplane Company, United Air Lines Transport, and United Aircraft Corporation. In 1975, United Aircraft Corporation changed its name to United Technologies Corporation, to more accurately reflect the broad nature of its business.

Defense Acquisition Scandals of the 1980s

UTC was and remains a major contractor to the U.S. government, including the Department of Defense. In the mid-1980s, the defense industry in the United States was embroiled in allegations of fraud, waste, and abuse. Reports of military spending on wildly overpriced spare parts were prevalent in the media, including the memorable \$640 toilet seats, \$437 hammers, and \$748 for two pairs of pliers.³ In June 1984, a Pentagon audit of the Defense Department’s spare parts purchases from October 1981 to September 1983 revealed that 36 percent of the 2,300 audited spare-parts purchases were either “unreasonably priced” or “potentially unreasonably priced.”⁴ In April 1985, the Pentagon’s inspector general announced that 45 of the 100-biggest defense contractors were under investigation by the U.S. Department of Defense.⁵

One of UTC’s divisions, Pratt & Whitney, faced allegations related to these acquisition scandals. In March 1985, Air Force Secretary Verne Orr wrote a letter asking Harry Gray, the chairman of UTC, to voluntarily repay \$40 million in excess profits that Pratt & Whitney made on contracts over a six-year period.⁶ Responding to the request, a Pratt & Whitney spokesperson

² John S. McClenahan, “UTC’s Master of Principle,” *Industry Week* (1 January 2003).

³ “\$437 Hammers Dent Public Support for Military Spending,” *Seattle Times*, AP: Knight-Ridder Newspapers, 31 March 1985.

⁴ Fred Hiatt, “Pentagon Concedes Routine Overpaying for Its Spare Parts,” *Washington Post*, 2 June 1984.

⁵ Wayne Biddle, “45 of 100 Biggest Contractors Being Investigated, U.S. Says,” *New York Times*, 25 April 1985.

⁶ Information for this paragraph was obtained from Tim Carrington, “U.S. Suspends GE from Defense Work, Asks It, Pratt & Whitney for Repayments,” *Wall Street Journal*, 29 March 1985.

asserted that the average earned profit on the contracts was 1.6 percent above the level “anticipated by the government at the outset.” He contended that Pratt & Whitney’s profits were not only reasonable, but they were also “consistent with the Department of Defense’s own guidelines for profit objectives.” Pratt & Whitney had “negotiated in good faith to deliver products at fixed prices, with the company assuming the risk of fluctuating costs,” he added. Although UTC felt that no refund was justified, the spokesperson explained that the company had “offered to work with the government because its ‘reputation as a major defense contractor [was] being questioned.’”

The Packard Commission

In July 1985, President Reagan responded to the defense management scandals by establishing a Blue Ribbon Commission known as the “Packard Commission” to conduct a study of the industry and to recommend a course of corrective action.⁷ The commission examined a wide array of issues and strategies related to government dealings with defense contractors and found that inefficiency within the system was a far larger problem than fraud. The “well-publicized spare parts cases are only one relatively small aspect of a far costlier structural problem,” the Packard Commission’s final report noted. The report recommended that defense contractors “must promulgate and vigilantly enforce codes of ethics that address the unique problems and procedures incident to defense procurement. They must also develop and implement internal controls to monitor these codes of ethics and sensitive aspects of contract compliance.” The commission called upon contractors to significantly improve efforts of self-governance.

Defense Industry Initiative

In 1986, a group of 32 defense contractors, including UTC, established the Defense Industry Initiative (DII), as a direct result of the requests of the commission and, more broadly, to the crisis in public perception. A study of public attitudes toward defense management presented to the Packard Commission indicated that industry contractors were “seen as especially culpable for waste and fraud in defense spending.”⁸ According to Pat Gnazzo, the DII originated when a group of defense representatives, including John “Jack” Welch, General Electric’s chairman of the board, decided that the industry needed a strong proactive response to the overall crisis in public trust. Welch invited the CEOs of several of GE’s peer companies to discuss these issues as a group. The DII prescribed a detailed program of ethics education and voluntary compliance measures aimed at self-regulation. The program included six guidelines, referred to as the “Principles,” to which all members of the initiative subscribed (see **Exhibit 1** for a list of

⁷ Information for this section was obtained from “A Quest for Excellence: Final Report to the President by the President’s Blue Ribbon Commission on Defense Management,” chaired by David Packard, June 1986.

⁸ “U.S. National Survey: Public Attitudes on Defense Management,” prepared by Market Opinion Research, *A Quest for Excellence Appendix, Final Report by the President’s Blue Ribbon Commission on Defense Management Appendix L* (June 1986).

the six principles). The Principles, also detailed in the Packard Commission's report, outlined ways in which the members of the DII could cooperate on developing and maintaining ethical standards and practices, sharing their company's best practices within the group, and making commitments that each member company would self-regulate these issues.

Ethics and Compliance Regulation in the United States

Despite industry efforts to self-regulate, a 1988 Defense Department audit showed that overcharges to the government continued: almost \$789 million or 47 percent of approximately \$54 billion in military contracts.⁹ Also in 1988, 34 of the 39 DII signatories were subject to over 200 investigations. Over 1,000 defense contractors were suspended from conducting business at some point in 1988 for a variety of ethical violations, "ranging from bribery and bid rigging to the manufacture of shoddy products and overcharging."

The U.S. government tried to increase the incentives for creating and implementing effective compliance programs. After years of data analysis and public hearings, the United States Sentencing Commission developed the Federal Sentencing Guidelines for Organizations (FSGO) in 1991.¹⁰ The FSGO outlined broad standards of ethical behavior for corporations that applied to all organizations whether publicly or privately held. Deputy General Counsel for the Sentencing Commission Winthrop Swenson headed up the task force responsible for developing these guidelines. "The task force collected formal and informal comments from the public," Swenson explained, "and the defense industry representatives were the most vocal participants in this process."¹¹ As Swenson described, the defense contractors advocated the idea that self-regulating compliance and ethics programs should be key determinants in establishing punishments for violations. "The voice from the DII," he said, "helped to confirm and ratify the model that was being considered by the task force."

More than a decade after the original FSGO guidelines were established, the United States Congress passed the Sarbanes-Oxley Act of 2002 to provide additional government regulation of public companies' compliance to statutory and regulatory standards. Among other things, the act included a number of significant changes relating to the responsibilities of directors and officers, from reporting requirements to corporate governance obligations.

⁹ Information for this paragraph was obtained from Robert Wrubel, "Addicted to Fraud?" *Financial World Partners* 1989 (27 June 1989).

¹⁰ "An Overview of the Organizational Guidelines," Paula Desio, Deputy General Counsel, United States Sentencing Commission; from the United States Sentencing Commission Website <http://www.ussc.gov>.

¹¹ Telephone interview with Winthrop Swenson, 4 October 2004.

UTC's Ethics and Compliance Program¹²

In its quest to increase self-regulation of compliance issues in an increasingly government-regulated environment, UTC first published its Code of Ethics in 1990.¹³ UTC adopted this broad-ranging code in order to articulate standards of conduct over and above compliance with legal requirements. Since then, the company has woven the Code of Ethics into the corporate culture through various business practices programs and detailed policies in the *UTC Corporate Policy Manual* (see **Exhibit 2** for a Code of Ethics excerpt). In his introduction letter, CEO George David explained to UTC employees that “ethics and compliance are our joint responsibility.” He continued, “We must have a spotless, perfect record, period. We’re counting on each other.”¹⁴ UTC also incorporated five major company commitments, originally published in UTC’s 2001 Annual Report, into the Code of Ethics.¹⁵ The five company commitments were performance, pioneering innovation, personal development, social responsibility, and shareowner value (see **Exhibit 3** for details on these commitments). An *Industry Week* article naming George David as CEO of the Year for 2002 credited these five commitments for guiding UTC’s strong performance in 2001 during a U.S. recession.¹⁶ The words were important, according to David, because “they focus on the present and future of UTC while incorporating achievements and values of the past.”¹⁷

Under the guidance of the Code of Ethics and UTC’s commitments, UTC had two main ethics and compliance programs, serving specific, complementary functions. As vice president of Business Practices, Pat Gnazzo oversaw both components: the Business Practices program and the Ombuds/DIALOG program. The Business Practices program is responsible for oversight of standards, beginning with corporate policies, training, assessments, and investigations. The Ombuds/DIALOG program is responsible for providing a confidential, anonymous avenue for employee communications.

UTC had distinguished itself from many other companies, Gnazzo explained, by fully institutionalizing its ethics and compliance programs, with a firm commitment to their success from top-level management. Ultimately, line management had responsibility. Rather than the typical pattern of declining infrastructure and authority he had observed in other companies’ ethics programs, Gnazzo applauded UTC’s commitment to providing the continued resources for the program and for maintaining the high-level of the vice president of Business Practices within the reporting structure of the organization (see **Exhibit 4** for an overview of the structure of the Business Practices programs).

¹² Unless otherwise noted, information in this section was gathered from a meeting with UTC Ombuds Consultant George Wratney on July 14, 2004, and from a telephone call with George Wratney and UTC Vice President of Business Practices Pat Gnazzo, on 19 August 2004.

¹³ As part of its DII initiative, UTC in 1986 adopted a “policy statement on business ethics and conduct in contracting with the U. S. government.” The “policy statement” remains in effect today.

¹⁴ UTC Code of Ethics, United Technologies Corporation Website <http://www.utc.com>.

¹⁵ *UTC World* 1 (2002).

¹⁶ John S. McClenahan, “UTC’s Master of Principle,” *Industry Week* (1 January 2003).

¹⁷ *Ibid.*

The *UTC Corporate Policy Manual* clearly outlined that the Code of Ethics should serve as “a framework for decision-making” and that in addition to “compliance with the law,” it also required “avoidance of conflicts of interest, integrity and fair dealing.”¹⁸ The manual stated that “each director, officer, employee and representative is personally responsible and accountable for meeting the requirements and standards of the Code.” UTC’s chief executive officer and each business unit chief executive were “responsible for creating and fostering a culture of ethical business practices, encouraging open communications, and for instilling an awareness of and commitment to the Code of Ethics.” In Gnazzo’s view, management also viewed the ethics and compliance programs as a tool to protect the company’s bottom line, guarding the corporation from individuals who may have acted either dishonestly or in their own self-interest. “Every manager at UTC knows that employees have an alternate channel to report a potential wrongdoing,” Gnazzo explained.¹⁹

UTC structured its programs so that the 206 Business Practices officers (BPOs) were integrated throughout the corporation, in local business units, located in the various countries in which UTC operated. BPOs all worked in other positions within the corporation, and the duties of the BPOs were in addition to their regular jobs. Employees approached BPOs for guidance and advice on business ethics issues, assistance with interpreting UTC’s corporate policies or general compliance issues. BPOs were also responsible for reinforcing the Code of Ethics through training and communications, and they assisted with ethics and compliance reporting requirements. Although there were many difficulties in enforcing a single Code of Ethics across many countries and cultures, as Gnazzo noted, the basic rules of “don’t lie; don’t cheat; don’t steal” seemed to translate into any culture’s ethical beliefs.²⁰

The other main component, the Ombuds program, was established at UTC in 1986 to allow employees an alternate, confidential means of raising ethical concerns, making suggestions, registering complaints, or asking for guidance in ethically unclear situations. Employees were still encouraged to resolve issues via the traditional routes of human resources or through their supervisors, but for employees who preferred a confidential channel, the Ombuds program provided an alternative. The four Ombuds, all long-term UTC employees with an average tenure of over 20 years, were assigned by geographic regions and assisted employees with complex ethical issues. Ombuds worked with employees over the phone, in person, or via the Internet. The Ombuds also trained and supervised approximately 175 DIALOG Program Administrators (DPAs), dispersed throughout the corporation, who, in addition to their full-time jobs, handled written inquiries to the DIALOG Program and assisted with the daily operations of a system for processing employee inquiries. Employees reached the DPAs via mail or a DIALOG Website, where they chose a secure password that they could later use to return to the site for resolution on their inquiry. The DIALOG system was available to employees in 29 languages. Since the start of the Ombuds/DIALOG program, it had dealt with more than 10,000

¹⁸ Information for this paragraph was obtained from UTC Corporate Policy Manual, Section 36, Exhibit 1, Items 1–3 (1 February 1993); revised 11 March 1993.

¹⁹ “Web-Based Ethics Program Encourages Open Communication,” *Best Practices in HR 774* (2 October 2004).

²⁰ “Doing Things Right,” video clip from UTC’s Website <http://www.utc.com>.

Ombuds cases and over 60,000 DIALOG inquiries. Inquiries were varied and included issues ranging from questions about company policies to queries related to ethical business practices.

Chubb

Like its new parent company, Chubb also conducted business on multiple continents and in many countries around the globe.²¹ The regional Chubb headquarters were located in Sydney (covering Australia and New Zealand), Hong Kong (covering all of Asia), Paris (covering all of continental Europe), London (covering England, Scotland, and South Africa), and Toronto (covering the United States, Canada, and Mexico). All but about 1,000 of the approximately 46,000 Chubb employees worked outside of the United States.

When it acquired Chubb, UTC obtained not only security and fire protection *systems*, but also security guard employees who were widely dispersed in various buildings in the regions where Chubb operated, and who often had little affiliation with the central organization. Chubb had in prior years made hundreds of small acquisitions and was struggling with integration of a skilled but geographically and culturally diverse workforce. The decentralized workforce appeared to have weaker allegiances to Chubb than the typical UTC employee had to her or his UTC company. Further, a large number of Chubb managers had very short tenure with the company. Additionally, Chubb security guards reported directly to their assigned buildings, had little interaction with a central Chubb office, and had no access to the company's intranet or computer system.

In 1999, Pat Gnazzo had managed another large-scale integration of employees when UTC acquired Sundstrand, which later became part of Hamilton Sundstrand. According to Gnazzo, although the scope of the integrations was similar, the two situations were very different. Unlike Sundstrand, Chubb had a corporate culture prior to joining UTC that included no established ethics and compliance programs, so UTC's Business Practices team needed to instill the basics of why such a program was necessary and what it encompassed. Sundstrand, on the other hand, had a centrally connected and technically proficient workforce and already had ethics and compliance self-regulation programs in place, so the focus during that integration was on strengthening the infrastructure and adding energy and resources to the existing programs.

Where to Start

With a well-established and highly trained network of Ombuds and Business Practices officers in place, Pat Gnazzo now faced the daunting task of simultaneously bringing 46,000 new Chubb employees into the UTC ethics and compliance system. Not only were these employees unfamiliar with a corporate ethics and compliance program, but Gnazzo and his team realized

²¹ Information for this section obtained from a telephone interview with UTC Ombuds (Patti Lynch, Brian Nugent, Tom Neal, and Steve Cordery), UTC Ombuds Consultant, George Wratney, and Pat Gnazzo, UTC vice president of Business Practices, 22 November 2004.

that UTC's standard methods of communication might be ineffective with the Chubb workforce, consisting primarily of security guards. Turning to his trusted team members for input and advice, Pat Gnazzo asked them, "Where should we start?"

Exhibit 1

**UNITED TECHNOLOGIES CORPORATION:
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The DII Principles

The DII Principles were adopted at the time of the establishment of the DII in June 1986, and have been periodically reconfirmed. The Principles are:

- (1) Each Signatory shall have and adhere to a written code of business conduct. The code establishes the high ethical values expected for all within the Signatory's organization.
- (2) Each Signatory shall train all within the organization as to their personal responsibilities under the code.
- (3) Signatories shall encourage internal reporting of violations of the Code, with the promise of no retaliation for such reporting.
- (4) Signatories have the obligation to self-govern by implementing controls to monitor compliance with federal procurement laws and by adopting procedures for voluntary disclosure of violations of federal procurement laws to appropriate authorities.
- (5) Each Signatory shall have responsibility to each other to share their best practices in implementing the DII principles; each Signatory shall participate in an annual Best Practices Forum.
- (6) Each Signatory shall be accountable to the public.

In addition to adopting and adhering to this set of principles of business ethics and conduct, Signatories have assumed a leading role in making the principles a standard for the entire defense industry, and a model for other industries.

Source: <http://www.dii.org/>; excerpt from THE STATEMENT OF DII PURPOSE AND ORGANIZATION; DEFENSE INDUSTRY INITIATIVE ON BUSINESS ETHICS AND CONDUCT.

Exhibit 2

**UNITED TECHNOLOGIES CORPORATION:
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Code of Ethics

Corporate Principles

United Technologies is committed to the highest standards of ethics and business conduct. This encompasses our relationship with our customers, our suppliers, our shareowners, our competitors, the communities in which we operate, and with each other as employees at every organizational level. These commitments and the responsibilities they entail are summarized here.

Our Customers

We are committed to providing high quality and value, fair prices and honest transactions to those who use our products and services. We will deal both lawfully and ethically with all our customers.

Our Employees

We are committed to treating one another fairly and to maintaining employment practices based on equal opportunity for all employees. We will respect each other's privacy and treat each other with dignity and respect irrespective of age, race, color, sex, religion, or nationality. We are committed to providing safe and healthy working conditions and an atmosphere of open communication for all our employees.

Our Suppliers

We are committed to dealing fairly with our suppliers. We will emphasize fair competition, without discrimination or deception, in a manner consistent with long-lasting business relationships.

Our Shareowners

We are committed to providing a superior return to our shareowners and to protecting and improving the value of their investment through the prudent utilization of corporate resources and by observing the highest standards of legal and ethical conduct in all our business dealings.

Our Competitors

We are committed to competing vigorously and fairly for business and to basing our efforts solely on the merits of our competitive offerings.

Exhibit 2 (continued)

Our Communities

We are committed to being a responsible corporate citizen of the worldwide communities in which we reside. We will abide by all national and local laws, and we will strive to improve the well-being of our communities through the encouragement of employee participation in civic affairs and through corporate philanthropy.

Standards of Conduct

Our Code of Ethics, comprised of our Corporate Principles and these Standards of Conduct, governs our business decisions and actions. The Code is an expression of fundamental values and represents a framework for decision making. The Code is further explained and implemented in policy circulars and policies included in the Corporate Policy Manual. The integrity, reputation, and profitability of United Technologies ultimately depend upon the individual actions of our directors, officers, employees, representatives, agents and consultants all over the world. Each is personally responsible and accountable for compliance with our Code. In addition, any representatives, agents or consultants used by the Corporation shall be prohibited from acting on its behalf in any manner that is inconsistent with the standards of conduct applicable to employees under the Code of Ethics.

The following Standards of Conduct serve to assist in defining our ethical principles and are not all-encompassing. The Standards must be interpreted within the framework of the laws and mores of the jurisdictions in which we operate, as well as in light of UTC policies and good common sense. Reasons such as “everyone does it” or “it’s not illegal” are unacceptable as excuses for violating our Standards. We must each be mindful of avoiding at all times, on and off the job, circumstances and actions that give even the appearance of an impropriety or wrongdoing which could discredit the Corporation.

These Standards of Conduct will be enforced equitably at all organizational levels

Source: <http://www.utc.com>; excerpt from UTC Code of Ethics.

Exhibit 3

**UNITED TECHNOLOGIES CORPORATION:
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UTC Commitments

Performance

Our customers have a choice, and how we perform determines whether they choose us. We aim high, set ambitious goals and deliver results, and we use customer feedback to recalibrate when necessary. We move quickly and make timely, well-reasoned decisions because our future depends on them. We invest authority where it needs to be, in the hands of the people closest to the customer and the work.

Pioneering Innovation

We are a company of ideas that are nurtured by a commitment to research and development. The achievements of our founders - Willis Carrier, Charles and Jeremiah Chubb, Tom Hamilton, Elisha Otis, Fred Rentschler (who founded Pratt & Whitney), Igor Sikorsky, and David Sundstrand - inspire us to reach always for the next innovative and powerful and marketable idea. We seek and share ideas openly, and encourage diversity of experience and opinion.

Personal Development

Our employees' ideas and inspiration create opportunities constantly, and without limits. We improve continuously everything we do, as a company and as individuals. We support and pursue lifelong learning to expand our knowledge and capabilities and to engage with the world outside UTC. Confidence spurs us to take risks, to experiment, to cooperate with each other and, always, to learn from the consequences of our actions.

Social Responsibility

Successful businesses improve the human condition. We maintain the highest ethical, environmental and safety standards everywhere, and we encourage and celebrate our employees' active roles in their communities.

Shareowner Value

We are a preferred investment because we meet aggressive targets whatever the economic environment. We communicate honestly and forthrightly to investors, and deliver consistently what we promise. We are a company of realists and optimists, and we project these values in everything we do.

Source: <http://www.utc.com>; excerpt from UTC Code of Ethics.

Exhibit 4

**UNITED TECHNOLOGIES CORPORATION:
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Ethics and Compliance Programs at UTC

