

UTC: A Company Analysis

The aerospace industry is fiercely competitive. This is an industry where the government has a lot of control. Because aerospace companies are largely dependent on the government spending, changes in defense policy for that year can massively help or hinder sales for that year, and in fact, the production of aerospace products and parts can fluctuate more than 15 percent from year to year (#7). Also, a government's foreign policy can deny access to some international markets. While a company may have business in a country, changing political landscapes can disrupt commerce, and there is nothing the company can do to change it. United Technologies Corp tried to work around that and found themselves in trouble because of it.

On June 28, 2012, United Technologies Corp pleaded guilty to violating U.S. law for illegally exporting military software to China (#1). The software that they gave to the Chinese helped them develop their first military attack helicopter. This was a surprise to the UTC engineers that first laid eyes on it. "Where are the other ten seats?" one asked the Chinese official in charge of the program'...The Chinese official just laughed, according to the Justice Department" (#3). United Technologies and its two subsidiaries, Pratt & Whitney Canada and Hamilton Sundstrand Corp agreed to a sum of "\$20.7 million in criminal fines, forfeitures and other penalties to be paid to the Justice Department and \$55 million in payments to the State Department" (#2). This was an ongoing issue that spanned over 2 decades and totaled 576 administrative export violations (#2). Any time the word "treason" is in the conversation, it is pretty safe to say that this was bad news for UTC. Getting caught giving military technology to one of America's biggest threats is probably one of the worst thing that can happen to an American aerospace company. This was a failure that was not celebrated in the least. Perhaps

the only thing celebrated was how relatively lightly they were punished, as a \$75 million penalty is not much for a company that had a net income of \$ 5.13 billion in 2012 (#4).

UTC handled the event by issuing an apology. United Technologies chairman and CEO Louis Chenevert stated in a news release "We accept responsibility for these past violations and we deeply regret they occurred," (#1). Due to the federal court case this was involuntary disclosure. David Fein, The U.S. Attorney for the District of Connecticut, Bruce Foucart, the head of U.S. Department of Homeland Security, and others made the announcement of the guilty pleas and settlement in relation to the Z-10 Chinese aircraft (#1). Once UTC had been caught, they were cooperative, pleading guilty and setting new regulations to ensure that this type of event does not happen again.

Despite this event UTC's business was relatively unchanged. The business continued on its growth path despite the bad news. Two weeks after the pleading guilty, UTC's stock price hit its second lowest price of the year at \$70.95 (#5). Shortly thereafter though, the stock rose and finished the year at \$84.98 (#5). Their net income also increased from \$4.979 billion in 2011 to \$5.13 billion in 2012, showing that this event did not negatively affect their business (#4). The stock price rise and net income increase indicates that sales of aircraft engines and gas turbines actually increased after this event. That being said, the image of the company most definitely took a hit after this news broke. "It's certainly a black eye," said analyst Jeff Sprague of Vertical Research Partners (#2). Though the general population definitely had bad sentiment towards UTC for betraying their country, the general population does not buy airplane parts, which is probably why their sales did not suffer.

To their credit, UTC tried their best to make reforms after they had been busted. The problem was never the product, but whom they gave the product to. While some may claim that

these reforms are more to repair their image to potential customers and the public, they have taken steps to have a real change in how operations work. United Technologies have said they now have 175 executives to make sure they are compliant with the law, as well as spending \$30 million and hiring 1,000 full-time employees to make sure no event like this can occur again (#3, #6). Their view on changing policies is summed up by Pratt and Whitney's president's email to employees stating, "This must not be allowed to happen again. Without world-class export compliance, we could face additional fines and civil penalties – along with damage to our reputation and loss of important business opportunities" (#6). In addition to this call to action, they have also changed regulations by making it a priority to educate all 70,000 employees about export controls (#2). This event was isolated to one company, so it did not result in changes to other business.

UTC willingly did something wrong in the hope for a massive profit. They "took what it described internally as a 'calculated risk,' because it wanted to become the exclusive supplier for a civil helicopter market in China with projected revenues of up to \$2 billion," David Fein stated. They made a \$75 million bet that they would not get caught with potential to make up to \$2 billion. In a business where profits are over \$5 billion, one can understand why they attempted to do this. While they made a poor ethical decision, they did their best to try to make amends by implementing major reforms and changes to policy. With a relatively low monetary penalty, and no affect to their sales, UTC must consider themselves lucky to escape this PR nightmare mostly unscathed.

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