**Eaton Sustainability Report**

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**Introduction**

Eaton is a highly-diversified Fortune 500 company employing roughly 70,000 people and maintains a customer base in 150 different countries, with half of its sales in the U.S. Alexander Cutler is presently CEO. Eaton distributes electrical power and manufactures control equipment as well as hydraulic machinery, aerospace propulsion systems, truck safety devices, and golf club grips. In the economic downturn of 2009, sales decreased by 23%. Its cost-savings measures integrally linked to sustainability was predicted to save them $125 million and thus help them remain solvent in hard economic times. Since 2006, Eaton has reduced greenhouse gas emissions by 12.9% as part of Business Round Table’s RESOLVE initiative. Their headquarters in Cleveland, OH was built sustainably and their Asia Pacific headquarters in Shanghai constitutes Eaton’s first Leadership in Energy and Environmental Design (LEED) Gold certification, the “largest LEED-certified commercial interior project in China at the time.”[[1]](#footnote-1) Eaton has pursued sustainable manufacturing like recycling service transmissions and clutches (that would otherwise be used as scrap metal), and using special bar quality (SBQ) recycled steel for gears, shafts, and transmissions.

**Sustainability Measures**

Over the 2009-2010 fiscal year, Eaton’s energy use decreased by 7.6%, however, this is indexed to sales. In absolute terms, their energy use actually increased by 7.1%. The same trend appears with Eaton’s greenhouse gas emission – 7.1% decrease indexed to sales, but overall, 7.7% increase. Eaton reports a 12.9% decrease in greenhouse gas emissions since 2006 and lauds this as evidence of adherence to a pledge they made to the Business Roundtable to decrease emissions by 18% by the end of 2012. Indexed to sales, Eaton is becoming more efficient; however the terminology of a *decrease* in emissions is deceptive. Were an outside observer to read the 12.9% statistic without investigating much into the phrase “indexed to sales,” they would come away with an impression inaccurate to the realities of Eaton’s progress.

Numerous methodologies for assessing the level of greenhouse gas emissions proliferate across the globe. The United Nations uses the International Energy Agency’s conversion factors[[2]](#footnote-2). Popular elsewhere are the services of UK-based for-profit consultancy firm ERM, self-described “leading global provider”[[3]](#footnote-3) which uses at least one method – Bilan Carbone[[4]](#footnote-4). Eaton reports that its emission rate figures were calculated using World Resource Institute conversion factors. World Resource Institute is a self-described “global environmental think tank” headquartered in Washington, D.C.[[5]](#footnote-5). Each of these institutions has their own long and impressive list of credentials and awards; how significantly their methodologies differ or which produce the most accurate assessment is opaque.

In the area of water consumption Eaton does quite well, “not consum[ing] large volumes of water”[[6]](#footnote-6) to begin with, the company was able to decrease water use over the course of the 2009 both as indexed by sales and in absolute terms (18.2% and 3.8% respectively) by targeting a few select plants. Yet, the same trend from energy consumption and greenhouse gas emissions – decrease as indexed by sales, increase in absolute terms – reappears with Eaton’s waste statistics. Over the course of 2009, Eaton’s waste indexed to sales decreased by 1.2%. Overall, however, it increased 16.2%. This increase represents 20,100 metric tons of waste. In other words, as long as Eaton’s growth outstrips its waste, the company will be able to report encouraging numbers indexed to sales.

In this case, Eaton’s efficiencies are almost entirely tied to economies of scale. The pattern reiterates in energy consumption, carbon emissions, and waste generation – decreases per unit produced, increases on the absolute scale[[7]](#footnote-7). Water consumption is the only exception. Economics extols this well-recognized phenomenon as a way for modern companies in competitive markets to secure a competitive edge, and companies’ reliance on this cost-saving strategy is evident in the era of mass-production on a global scale. However, utilizing economies of scale is not the only way to secure such an edge. Strategies utilizing comparative advantage and economies of scope are available to companies in all industries and of all sizes.

BMW Group, for example reports emissions in terms of vehicles produced. I strongly suspect that because output is rising, BMW’s absolute emissions are rising as well. Keep in mind, BMW was ranked by Dow Jones Sustainability Index to be the world’s most sustainable automotive company[[8]](#footnote-8).

Other competitors in the industry include ITT, Johnson Controls, and Parker-Hannifin[[9]](#footnote-9). ITT reports that over the last five years they were able to use 27% less water, produce 46% less hazardous waste, reduce the “intensity” of energy use by 31%, and reduce the “intensity” of greenhouse gas emissions by 51%[[10]](#footnote-10). Parker-Hannifin has reduced energy use 42% since 2003[[11]](#footnote-11). Compared to Eaton’s reduction in greenhouse gas emissions of 12.9% (since 2006), it seems the industry peers are greener. However, statistics are not readily compared across companies due to differences in methodology. The picture becomes more complex with the various programs each company embraces. It is impossible to make the qualitative assertion that the ITT Watermark program, which provides clean water for schools and disaster relief across the world, is more or less socially responsible that Eaton’s World Environment Week activities or their ISO 50001 management framework. Just because Johnson Controls’ has a building LEED certified platinum while Eaton’s is only LEED certified gold does not mean that the aggregate of Johnson Controls’ practices are necessarily more environmentally friendly. It is difficult for the layman to determine if Parker-Hannifin’s socially responsible sourcing is any better than Eaton’s. However, these complications are not a result of wiliness on Eaton’s part. Eaton discloses information to an impressive degree (they were ranked 3rd most transparent by the Carbon Disclosure Project), making available on its website extended criteria for its Global Reporting Initiative[[12]](#footnote-12).

To determine is Eaton is green-washing a layman must therefore rely on rankings that have done their best to standardize across companies and quantify qualitative data. Based on *this*, Eaton is not green-washing. Ethisphere Institute named Eaton one of the world’s most ethical companies. *Newsweek* ranked them 16th most green company, climbing to that spot from 43rd the year before. Of general industrial companies, Eaton ranks first. *Corporate Responsibility Officer* named Eaton one of the 100 Best Corporate Citizens. *Business Watch* named them one of the top 10 green companies in China. Eaton ranks 41st on Bloomberg Maplecroft’s 2010 Climate Innovation Index. It appears then that Eaton is not only making a sincere and concerted attempt to improve its social and environmental impact, but is rather successful at it.

Yale and Columbia Universities’ “Environmental Sustainability Index” utilized 21 indicators[[13]](#footnote-13). However, it is typical for corporations to report on far fewer. For example, BMW’s sustainability report which is 123 pages longer than Eaton’s reports essentially the same things – energy consumption, water use, waste, with volatile organic compounds and environmental efficiency index numbers thrown in perhaps because of differences between U.S. and European regulations. HP, a corporation ranked China’s “Low Carbon Champion of the Year”[[14]](#footnote-14) reports emissions, use of recycled materials, amount of packaging, money invested in energy efficiency and social responsibility projects, and emissions, energy and water savings for users of their products. Succinct reporting and hard numbers makes Eaton’s sustainability report one of the more transparent, and roughly equally as thorough as industry peers’.

Eaton reports on its environmental impact, as noted earlier, as well as on the corporation’s social impact. In 2010, Eaton donated $7.3 million to various local charities, utilizing organizations such as the United Way and disaster relief funds. Unlike many companies, the decision-making of Eaton’s corporate giving is decentralized, granted to the employees who live in those various communities across the world. In addition, the company stymies bribery and other unethical behavior through its 24-hour Ethics and Financial Integrity Help Line as well as collaboration with the third-party, independent Office of the Ombuds.

**Human Resources**

In Eaton’s sustainability report, no direct mention of the Human Resources Department is made. However it can be inferred that they played a significant role in many of the sustainability initiatives highlighted. The most immediately obvious event likely influenced by HR was the events of World Environment Week. These activities were planned in support of UN’s World Environment Day. Eaton employees across the globe participated. On World Environment Day, 150 Eaton employees and their families planted 1,000 saplings at Banner Hill in Prune, India, highlighting interdependency of conservation and development.

Decentralized decision-making is also employed in addressing the needs of local communities. For example, Brazilian plants provide vocational training for low-income youth through something Eaton calls the Formare project. In Asheville, NC Mountain Housing Opportunities, a program for low-income, elderly and disabled home owners, is supported.

It seems like there is a program supporting decentralized decision-making (perhaps similar to that utilized in the determination of charitable contributions), putting into the hands of their employees the power to innovate solutions that best fit their local needs. For example, in Latin America, water conservation programs include collecting rainwater and condensed AC water for industrial and irrigation use respectively. In Germany, recycled water cools machines. The programs are tailored to the specific circumstances of each plant.

Also, training workshops (likely designed by Human Resources) focus on environmental sustainability as well. Eaton held the Low Carbon Expo at its Asia Pacific headquarters to teach employees of numerous multinationals about green commuting. In Romania, Eaton sponsored a bike day where no personal or company cars were allowed on the grounds of the Eaton facility. In the United States, Eaton hosted the Energy Evolution Symposia which brought together experts in the field to discuss issues central to energy use. In China something similar was held, the China Sustainability Seminar in Beijing which discussed multinational’s responsibility to society and environmental sustainability.

Overall, Eaton is a leader in sustainability to be exemplified. They have made great strides in operational efficiency as compared to others in the industry, although, as discussed earlier, in absolute terms there is much room for improvement. Their sustainability report makes no direct mention of their Human Resources department, however, of the further improvements that could be made, Human Resources is well-positioned to make headway. Eaton points out that Health and Safety targets were not met. Operational improvements to safety processes in hydraulics plants in Jining City, China and Reynosa, Mexico contributed greatly toward improving health and safety, but effective training procedures and team-building exercises as designed by the Human Resources department might better help them to meet their target.

In the area of waste management, energy consumption, and emissions, Eaton has built sustainable buildings. Now it is time for Eaton’s HR professionals to ensure the workers within those sustainable building practice sustainable habits. Many small changes made corporate-wide, *globe*-wide could go a long way towards improving their sustainability statistics. Simple training on paper reduction, recycling, turning off lights and other electronic devices when not used, healthy eating practices, and more organized activities like those of World Environment Day, such as biking to work would complement the initiatives Eaton has already pursued. Given that Eaton employs 70,000 people, a puny 150 of them planting trees on one day out of the year is impressive only at face value.

Eaton goes to great lengths to be as transparent as its shareholders would like, making numerous supplements to its report available on their website. These supplements are not simply confusing words meant to discourage the adamant investigator, but actually useful and informative. This is likely the result of input from their Customer Advisory Board, whose purpose is to “ensure that programs and communication efforts are meeting the needs of that important stakeholder group”[[15]](#footnote-15).

Eaton does address other stakeholders, however. Utilizing face-to-face meetings and surveys (likely designed by HR) they consistently seek out feedback from customers and employees. 96% of employees responded to their survey, one of the highest response rates of multinational companies. As with all companies, Eaton sets goals and monitors the health and safety of its workers. Eaton uses Days Away as a metric for health and safety, a metric that also connects directly to the bottom line.

As the third world develops, they will begin to impose stricter environmental guidelines. If Eaton and other companies whose plants are located in the cheap labor markets of the third world want to continue holding their competitive edge, they must be prepared for this global trend.

1. Eaton Annual Report 2010 [↑](#footnote-ref-1)
2. <http://www-pub.iaea.org/MTCD/publications/PDF/Pub1222\_web.pdf> [↑](#footnote-ref-2)
3. <http://www.erm.com/About-Us/Business-Information/> [↑](#footnote-ref-3)
4. <http://erm.com/Global/Events/Event\_Docs/ERM%20Jones%20Day%20Presentations%2015.04.2010.pdf> [↑](#footnote-ref-4)
5. <http://www.wri.org/about> [↑](#footnote-ref-5)
6. Eaton Annual Report 2010 [↑](#footnote-ref-6)
7. I would curious to know if every company reporting encouraging statistics follows the same pattern. If so, this would be counter to the ultimate aims of the environmental movement and would represent green-washing on a massive scale, in effect, no progress whatsoever. However, should there be some companies that have found a way to break free of economies of scale, so to speak, as the sole driver of efficiency, I would argue that that constitutes a *meaningful* beast practice to be emulated by companies all over the globe. [↑](#footnote-ref-7)
8. <http://www.rushlane.com/bmw-group-wins-worlds-most-sustainable-auto-company-award-for-the-7th-year-in-a-row-1220294.html> [↑](#footnote-ref-8)
9. Hoover’s company profiles. <http://www.lexisnexis.com.ezp1.lib.umn.edu/hottopics/lnacademic/> [↑](#footnote-ref-9)
10. <http://www.itt.com/docs/citizenship/brt-2011-sustainability-report.pdf> [↑](#footnote-ref-10)
11. <http://www.parker.com/portal/site/PARKER/menuitem.f5b3ff42f9682443b7bc4a969420d1ca/?vgnextoid=6d1e30db0b851210VgnVCM10000048021dacRCRD&vgnextfmt=EN> [↑](#footnote-ref-11)
12. <http://www.eaton.com/Eaton/Sustainability/AccountabilityTransparency/index.htm> [↑](#footnote-ref-12)
13. <http://sedac.ciesin.columbia.edu/es/esi/d\_comindtables.pdf> [↑](#footnote-ref-13)
14. <http://www.hp.com/hpinfo/globalcitizenship/pdf/fy10\_brochure.pdfhttp://www.hp.com/hpinfo/globalcitizenship/pdf/fy10\_brochure.pdf> [↑](#footnote-ref-14)
15. Eaton Annual Report 2010 [↑](#footnote-ref-15)