

BusinessWeek

FACETIME July 2, 2009, 5:00PM EST

Inside a Company Resetting for Recovery

Maria Bartiromo talks to Eaton CEO Alexander Cutler

By [Maria Bartiromo](#)

General Electric CEO Jeff Immelt is widely credited with coining the term The Reset Economy—the notion that business needs to adjust its expectations and behavior to a new, post-recession world. In his annual letter to shareholders, Immelt wrote: "I believe we are going through more than a cycle. The global economy, and capitalism, will be 'reset.' " Recently he told me that even more than change, reset means an overhaul of priorities. To understand how companies on the ground are positioning themselves for recovery, I talked with Alexander Cutler, CEO of Eaton ([ETN](#)), a \$15.4 billion diversified corporation with businesses extending deeply into the global economy.

MARIA BARTIROMO

Do you think the economy is resetting?

ALEXANDER M. CUTLER

There has been an enormous sea change in both economic momentum and prospects [for business] because unlike previous recessions, this one has been simultaneous around the world. The whole decoupling theory has been [discredited]. What we see is the deleveraging of the global economy and the rebuilding of an economy without as much leverage. The good news is that the Armageddon case—the failure of the world banking system—is off the table. But we think it will be a slow recovery.

So how important is it for companies at this point in the economic cycle to be preparing for recovery?

There is tremendous pressure on what I've called short-termism. The danger is that companies may start to look more short term, abandoning commitments to R&D, to innovation, to advancing productivity. We have not changed our commitment to R&D, and we continue to be focused on power management. And at a time when we think energy costs will continue to get more expensive as the economy recovers and as any version of the carbon constraint approaches is adopted, we are right in the sweet spot because our customers are going to need more help figuring out how to use less energy, and how to use the energy they do consume more efficiently.

With things so volatile, how can anyone presume to know what's around the corner?

It is very difficult. We're not being Pollyannas. We don't believe we're at the bottom of this. We think if there is a danger, it is that many people are so hopeful right now they're declaring the economy is on the way up. We think maybe we start to get stabilization in the fourth quarter, but we do think that we will see global growth return in 2010.

When do you think we'll see job creation again?

We think there's a high likelihood that unemployment goes over 10%. We don't really see employment recovering until we get well into 2010.

What are you doing at Eaton to reset your game plan?

Like many companies, we have been taking steep reductions in our economic activities around the world, and those are painful for all of our employees. All of our existing employees who are still on our payrolls are taking a week off unpaid in each quarter of this year. Those are ways to try to help preserve employment because we want to continue our commitment to R&D, marketing, and innovation. But we're having to run [the business] with a very, very tight wallet.

Which of your businesses have fared best and which have fared worst in the recession?

The businesses that have been hit most severely were the North American automotive markets, capped, obviously, by the bankruptcies of Chrysler and GM. The enormous downturn in industrial activity in the U.S. has also hit the truck market heavily because there's not a lot of freight to be [hailed]. If you think about the hydraulics markets, they're a great surrogate for industrial activity.

I'm hearing a lot of multinational CEOs complain about President Obama's proposed tax on foreign profits. What are your thoughts?

I really think the argument should be less about the specific tax policy and focus more on what is the value to the American economy of large, multinational companies being headquartered in the U.S. and shipping product out to other parts of the world. Those are job creators, and the concern we and many other companies have is that if tax reform is to be undertaken—and there are a lot of reasons to look at that—it needs to be comprehensive. We ought to be looking at international competitiveness, transparency, and job creation, so that our American-headquartered businesses have the same competitive benefits as rival companies that happen to be headquartered in other countries. Let's take a more holistic view and assure that we maintain the competitiveness of our enterprises.

Are there any positives that have come out of this reset?

I think you clean up some of the risk-taking, which really wasn't based on what I'd call risk-adjusted capital, and bring a more thoughtful approach to what's a reasonable risk to take. Your use of the word reset is really very much on point, because this is a time to look forward. It is a time when businesses shouldn't be assuming that the future will be like the past. And I mean that in virtually every dimension, whether it's economic growth, value propositions, or the level of government regulation and involvement. There have been very, very big changes. And for people who have not yet gotten their heads around those changes, the recovery will not be as fast.

Maria Bartiromo is the anchor of CNBC's Closing Bell.