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Boss Talk: Transformer in Transition; He Turned UTC Into Giant; Now, CEO George David Carefully Prepares Successor

J. Lynn Lunsford. Wall Street Journal. (Eastern edition). New York, N.Y.: May 17, 2007. pg. B.1

Abstract (Summary)

Mr. [George David]: What goes on in a big sailboat is a combination of preparation, organization, design, strategy, tactics, rules, teamwork, individual performance and group performance. On a 50-footer, you race with a dozen people in a congested space. When you drop a new crew person in, every now and then you may get an elbow in the face. It's because you and that person don't know how you're going to move relative to one another. That's the same thing in the business; you don't want an elbow in the face.

Mr. David: It's not correct to compare me to a prospective chief executive. I've been at this job for 15 years. In 1992, when I was the new chief executive, people didn't like us, and they didn't like me. That's the time when UTC's market cap was \$6 billion. Today, it's \$66 billion. I think it's really important to do a like-for-like compare. That's why I believe in an extended transition. Investors and a board need time to be comfortable with a new chief executive.

Mr. David: There's probably half a billion more people in the work force in the world now versus 15 years ago, and that is China and surrounding countries. That's a tremendous increase of, frankly, low- cost labor. That's why we've seen high productivity and low labor-cost inflation and therefore, real productivity at the bottom line. There's a lot of room left for this incredible labor force in Asia.

Full Text (1342 words)

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United Technologies Corp. Chief Executive George David is often described by senior executives as the professor they wish they'd had in business school. Those who find themselves traveling on his corporate jet refer to the seat across from Mr. David's as "the tanning booth" because of the intense nature of so much face time with the boss.

Mr. David commands such attention because, since taking the helm in 1994, he has led the transformation of a once sleepy New England manufacturing company into a \$50 billion aerospace and building- services conglomerate that routinely outperforms its peers. Now 65 years old, Mr. David is preparing to turn over the reins to Louis Chenevert, who was promoted a year ago from head of the company's Pratt & Whitney jet engine unit to the position of UTC president and chief operating officer.

Mr. David, who spends his free time racing an oceangoing yacht, has said he intends to step down as chief executive during the second quarter of 2008. He has indicated that he's willing to stay on as nonexecutive chairman for a couple of more years at the request of the board. Excerpts from a recent interview follow.

WSJ: You have said that a sailing race is like a year of business compressed into an afternoon. How?

Mr. David: What goes on in a big sailboat is a combination of preparation, organization, design, strategy, tactics, rules, teamwork, individual performance and group performance. On a 50-footer, you race with a dozen people in a congested space. When you drop a new crew person in, every now and then you may get an elbow in the face. It's because you and that person don't know how you're going to move relative to one another. That's the same thing in the business; you don't want an elbow in the face.

WSJ: There are some who think there's a George David premium built into UTC stock. Do you think that's true?

Mr. David: Well, the answer is there isn't. I wish there was, but there isn't. It was that way with [former General Electric Co. Chairman] Jack Welch, and maybe even [former Honeywell International Inc. Chairman] Larry Bossidy, no doubt about it. They were fairly center stage kinds of people. I don't think I've ever been that way.

On the math, our multiple is actually right in the middle of the pack. We sometimes think it's a point low. So the answer is there's no premium in the stock.

WSJ: About a year ago, you started the process of preparing Mr. Chenevert to take your place when you retire. How's that going?

Mr. David: I would say it's going very well. Louis is a great operator. He's as good as they come. One point that's a little misunderstood by investors and people outside these big companies is that the skill sets required in the corporate office are dramatically different than the skill sets in the divisions. I think it takes a couple years to learn, actually.

I think some of the problems with CEO succession in the past are because it has been too quick. I was the president for two years and then the CEO for three, and not the chairman until after five years.

WSJ: Regardless of who becomes the CEO of United Technologies, that person isn't going to have your experience or cachet with Wall Street. What are you doing to ease that situation?

Mr. David: It's not correct to compare me to a prospective chief executive. I've been at this job for 15 years. In 1992, when I was the new chief executive, people didn't like us, and they didn't like me. That's the time when UTC's market cap was \$6 billion. Today, it's \$66 billion. I think it's really important to do a like-for-like compare. That's why I believe in an extended transition. Investors and a board need time to be comfortable with a new chief executive.

WSJ: According to your numbers, UTC's products generate something like 2% of the greenhouse gases world-wide. Given that you don't have any plans to stop making air conditioners and jet engines, what can you do to make them greener?

Mr. David: We cool things, heat things, fly things, elevate things, send people to the moon. The common denominator is to convert energy to useful work. Our equipment lasts super long. The average life of installed air-conditioning systems is 20 years or more; for elevators, 50 years or more; engines, 40 years. So you get giant populations of stuff out there, which is where you get the 2% from.

I think the solution to the energy problem is actually not alternative energy. To me, the solution immediately is conservation by greater efficiency. Too much in the mind of the public is this idea that conservation means deprivation. You've got to be cold at night, shut off the lights, stuff like that. That's simply not true. The bottom line is that energy is wasted in the world to a phenomenal extent. There's enormous energy savings potential in the conservation agenda where you do it by efficiency. In our own internal operations, we dropped the energy consumption at UTC by 19% over a decade at the same time the company doubled its size. All of America can drop its energy consumption by 20% in a decade easily. We're now working with the World Business Council for Sustainable Development to come up with a building that uses zero net energy.

WSJ: How have globalization and productivity changed the playing field?

Mr. David: There's probably half a billion more people in the work force in the world now versus 15 years ago, and that is China and surrounding countries. That's a tremendous increase of, frankly, low-cost labor. That's why we've seen high productivity and low labor-cost inflation and therefore, real productivity at the bottom line. There's a lot of room left for this incredible labor force in Asia.

You can't walk through life with a trained eye and not see the opportunities for productivity. Every time you sit in traffic, that's a productivity loss. Every time you go to the doctor and fill out a bunch of forms and he refers you to somebody else and you fill out the same forms all over again, that's a loss of productivity. Whenever you wait for something, that's waste. I believe you can have 10 times more. I really do.

WSJ: Ten times more of what?

Mr. David: Everything. Everything. Just look at the differences in personal productivity between people, educated versus not educated. Or people in good, really productive labor environments, versus people who are kind of struggling because they're in disorganized or ineffective companies.

A large number of people have been deprived by opportunity, by education, by life's circumstance, and they end up having less than fully productive lives. It's not only bad for them as individuals, it's also very bad for the society because it's all lost work.

There's a part of the world that doesn't believe in the rights of women. Why on earth would you live in a society where half the people are deemed to be nonproductive? If you would like to have a little more, isn't it a good idea to have actually every single person participate, every single person be educated? To me, that's almost an entitlement in a civilized society.

WSJ: Since you founded the UTC Scholar program, the company has spent more than \$600 million paying for higher education for its employees. Has it been worth it?

Mr. David: Categorically. Flatly. No argument. I think that's the best thing we ever did for employee benefits. Twenty-one thousand degrees have been earned, and 13,000 people are currently enrolled. It costs us \$65 million a year. That's about 1% of UTC's operating income.

Is it worth it? I guess I go back to my basic principle, which is education is definitely the most powerful force in life. Educated people are more thoughtful. They're more widely read. They're more alert to change. They're more confident.

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