MANAGERISM

Boeing – Bad Managers And GE-Style Culture (Part 2)

CEOs and their methods

Manfred Hoefle

Boeing had a reputation as a rock-solid engineering firm that makes first-rate aircraft in the Pacific Northwest state of Washington, USA.(1) In the mid-1990s management consultants, Wall Street and business administration professors began calling Boeing a "lazy company", which should be kicked in the pants. That did eventually happen. In 1997 Boeing merged with McDonnell Douglas, an aircraft maker strong in the defense sector. What happened next is best described as inverse culture change: the smaller partner, McDonnell Douglas, dominated the corporate culture of the larger partner, Boeing. Later in 2014, Harry Stonecipher the former CEO of McDonnell Douglas and then CEO of Boeing, described that radical transformation as follows: "When people say I changed the culture of Boeing, that was the intent, so it's run like a business rather than a great engineering firm."

A year before the first crash of a Boeing 737 MAX in Indonesia, Boeing was among the *most admired companies* and easily the most valuable industrial business in the USA(2). After two 737 MAX crashes, that is no longer true. The highly praised two-decade transformation of Boeing has caused serious damage to the corporation.

This thinkpiece names and characterizes the CEOs of Boeing over the past 20 years; the men who are responsible for its decline. It describes their *managerist* attitudes and methods, and in conclusion, summarizes the behavior of Boeing's CEOs and management from a present-day standpoint.

The first CEO candidate is:

Phil Condit – Aeronautical Engineer, CEO (1996-2003)

An aircraft enthusiast and aeronautical engineer by training, Condit was one of seven Boeing CEOs whose role left sufficient time to study for a one-year MBA degree. During his career at Boeing he switched from engineering to marketing and then sales. He was the first Boeing CEO to adopt a strategy focused on business growth, which included purchasing Rockwell, mainly active in the defense sector, and later merging with McDonnell Douglas. During his CEO tenure, Boeing doubled in size and annual revenues rose to $54 billion. The purpose of these acquisitions, Condit said, was to counter-balance the cyclical nature of the civil-aircraft industry. Condit was also managerially responsible for the design of the Boeing 787 Dreamliner and introduced a globalized supplier structure. However, early on the Dreamliner suffered production and safety problems caused by technical faults and under-qualified key suppliers. The first production aircraft was repeatedly delayed and was eventually delivered three years late. As a result, the forecasted 787 break-even point was postponed into the future. Condit moved Boeing's corporate headquarters to Chicago, which put a physical and psychological distance between the corporate leadership and the manufacturing sites and operational workforce in Washington state.

Due to the nature of their dealings with certain procurement officials at the US Department of Defense, two of Condit's direct subordinates were sent to prison for a military contract scandal, after which Condit resigned. By then, he had won several manager awards and in 1997 was named CEO of the Year by *Financial World*.

Harry Stonecipher – Scientist, President, COO (1997-2001) and CEO (2003-05)

Stonecipher, a former CEO of McDonnell Douglas (1994-97), who had supposedly retired in 2001 although still Vice-Chairman of Boeing, was recalled in 2004 to replace Condit as CEO. Stonecipher began his career at General Motors, worked for many years at General Electric(3), was CEO of another major supplier to the aircraft sector, and was appointed head of McDonnell Douglas in 1994. Due to his showman style of video press conferences, he became a public figure. It was Stonecipher who co-ordinated the fusion of McDonnell Douglas with Boeing. Afterward, as the COO of Boeing, he negotiated with the US Defense Department to have an ethics-related ban lifted, so that Boeing could again bid for contracts worth billions of dollars. During his CEO tenure Boeing continued to have problems with the 787 Dreamliner before it eventually entered operational service.

After less than two years as CEO, Stonecipher was fired for breaking the behavior code for managers. Boeing was unprepared for his sudden departure.

Lew Platt was Chairman of Boeing from 2003 until his untimely death in 2005. With his judicious manner and demands for the highest standard of integrity, Platt was widely accepted across Boeing and highly regarded by the US business management community. It was Platt's rule of "zero tolerance on breaches of ethics" that resulted in the immediate dismissal of Stonecipher.

Walter James McNerney Jr., MBA (HBS), President, CEO & Chairman (2005-15)

McNerney was the first non-engineer to be Chairman of the Board and CEO of Boeing. He had a typical US top executive career: first manager at Procter & Gamble, then consultant at McKinsey, numerous general manager positions at GE, and four years as CEO and Chairman of 3M(4) before joining Boeing. He was a typical GE executive, with a remote yet competitive manner and a financial controlling manager approach. During his nineteen years at GE, McNerney switched functions on average every two-and-a-half years, before heading their Aircraft Engine Division. He was unsuccessfully short listed to succeed Jack Welch as CEO. McNerney then left GE to join 3M — a firm with multiple products and a smaller and different type of organization than GE. McNerney made a name for himself as a shareholder-value oriented CEO, who distanced himself from the traditional innovative culture of 3M. His management mantra was: "Driving costs down in order to drive margins up". He left 3M without making a positive long-term impact.

McNerney joined Boeing as Chairman and CEO in 2005, with an aggressive managerist style of leadership. That included outsourcing large parts of 787 production to the non-trade union states of South Carolina and Alabama, continuous conflict with employee representatives, arrogant language "they will still be cowering", freezing and terminating Boeing company pensions, putting intense pressure on the state of Washington to forego tax revenues, openly hostile to suppliers and forcing them to cut their prices up to 15 per cent, extreme rivalry with Airbus, and repeated references to the threat of China.

McNerney's most far-reaching decision was to upgrade the 737 model, now called 737 MAX, instead of designing a completely new successor aircraft. This was a reaction to the competing Airbus A320neo. In the opinion of Boeing employees and Boeing watchers, McNerney was the 'last nail in the coffin' of the firm's traditional corporate culture with its family-enterprise ethos. Nevertheless, as reward for the short-term financial success of Boeing, he pocketed about $30 million annually. While heading Boeing, he also worked on several outside supervisory boards such as Proctor & Gamble and IBM, was a trustee, a US government consultant, and chairman of the US President's Export Council.

Dennis Muilenburg – Aerospace Engineer, President, CEO, Chairman (2015-19)

Muilenburg was an ambitious engineer who joined Boeing "… to become the world's best airplane designer." He was highly disciplined, competitive and a Bible student. He saw himself as a visionary and strategist who could, "Chart the course: What should the next 100 years look like." Muilenburg was considered the guarantor for Boeing's expansion into all civil(5) and military sectors of the aerospace industry. During 2017-2018, Boeing fast became a corporate benchmark for aerospace profitability, and seemed to have a glorious future in the aircraft industry that anticipated a continuing upswing.

Until the two 737 MAX fatal accidents, Muilenburg was believed an effective manager. He was from the right socio-economic background and accepted by the executive manager cabal. However, after the two fatal accidents, his conciliatory maneuvering and rash promise of a quick-fix for the MCAS(6), ignorant comments, and behavior that sharply contrasted with his self-proclaimed motto, "React quickly. Events can change everything. So must you.", things changed. Although a professional aircraft engineer, he was not alone to blame for Boeing ignoring elementary design principles and safety rules: such as insufficient sensor redundancy, pilots unable to simply and quickly switch-off the autopilot, and willful avoidance of necessary simulator training.(7)

After a late Board decision to radically slow-down production of the 737 MAX, Muilenburg was fired as Chairman and CEO. During his dismissal and despite the biggest-ever crisis at Boeing, he was praised for his good service to the company. He was rewarded with around $60 million, mostly contractually owed to him. He declined some severance payments he was owed as a gesture to the relatives of those killed in the two crashes.(8)

David Calhoun – Accountant, Board Member, Chairman, CEO (2020 -)

Armed with a university degree in accounting, Calhoun began his career at GE where he moved between several divisions including Aircraft Engines. He ended his 26-year GE career as Vice Chairman of the GE board. His next position was CEO of the newly merged information company Nielsen Holdings which, with finance and support from Blackstone, was soon floated on the stock exchange. After that, he networked to Blackstone, the world's largest alternative investments firm (private equity, hedge funds), where he was appointed Senior Managing Director. At the same time, Calhoun sat on several supervisory boards (GE, Caterpillar, Medtronic, Gates Corp). He joined the Board of Directors at Boeing in 2009, was named Lead Independent Director, and became prime candidate to be the next Boeing Chairman.

Sure enough, after Muilenburg was fired by Boeing, Calhoun was nominated CEO in early 2020. At that time, the most urgent and important task for Boeing, with 400 of the 737 MAX grounded, was to get them airworthy and flying again. Calhoun has been awarded a success-related bonus of $7 million. He first attempted to re-establish good relations with the FAA, the US civil aviation regulatory authority.

The biggest long-term challenge facing Boeing is to re-create trust in the company and solve the numerous claims for liability and damages made by customers and suppliers.(9) This will mean revitalizing the sick culture of a corporation still believed too-big-too-fail (TBTF).

BOEING – AN EXEMPLARY CASE OF MANAGERISM

Since its fusion with McDonnel Douglas about 20 years ago, the CEOs of Boeing implemented practices (as described in Part 1) that also characterize a *managerist* corporation.

These can be summarized as:

- a one-sided capital-market orientation (with a micro-controlling regime); judging products by profitability and target costs, and not by technical quality or safety (which is why Boeing prioritized 'upgrading' the legacy 737)
- comprehensive, cost-related outsourcing or offshoring of production to lower-cost locations without looking for rationalization potential by consulting in-house staff
- lowering the R&D budget and instead trying to buy-in technological innovations
- under-rating technical specialist roles in favor of auxiliary staff like controllers, compliance officers, communicators (PR) and lobbyists
- comprehensive schemes to save personnel costs (by cutting company pensions and downgrading workforce roles) and investing less in professional training
- using purchasing power over suppliers to dictate lower prices by threatening de-listing;(10) threatening to cancel service contracts; soft pressure and outsmarting of supervisory and regulatory authorities (11)
- poison pill offers to regulatory authorities to take over their regulatory tasks and self-testing (self-regulation); improper behavior when 'co-operating' with the Federal Aviation Administration (FAA), which also created a global loss of trust in the FAA
- exerting market power by creating obstacles to prevent customers switching to other suppliers.(12)
- acquiring competitors (called market 'consolidation' or 'cornering the market') which meant more market concentration, less industry innovation, but bigger profit margins for Boeing (13)
- paying less tax by threating to move production and corporate headquarters elsewhere
- proliferation of lobbying equivalent to 'soft corruption' in various shapes and forms
- intervention by 'Boeing-friendly' politicians and officials to discriminate against (foreign) competitors.(14)

The first to benefit from these improper practices were the executive managers. Top executives ensured they pocketed a large share of the bigger profits by creating and approving a complex and murky executive compensation scheme. Boeing developed a compensation plan for top executives with the base salary less than 10 per cent of the gross salary.(15) And Boeing is not alone in introducing share buy-back schemes that are self-enriching for corporate executives (stock options, share performance).

In fact, top managers, followed by the rest of the workforce, no longer say "that is not the right way for us to behave". They simply compare the advantages and disadvantages: if the risk of getting caught is less than the anticipated profit, they will take the risk, just like any common thief. This amoral approach is not unusual in corporations that focus on shareholder value.

A sure sign of managerism is when corporate headquarters are moved to major cities, far away from the operating facilities where the real value is created, and managers focus on financial strategies. These physical moves are justified by falsely claiming that closeness to financial markets and stock exchanges is essential, because of the pool of 'smart' people and potential financial deals. A closeness to manufacturing plants, and the operating staff who are the day-to-day 'value creators', is considered irrelevant. As is closeness to R&D staff, the professional engineers responsible for technology transfer, process and product innovation.

BOEING – CLOSE RELATIONS WITH GE

By 2015, GE was no longer the benchmark for highly effective and honorable corporate management. During the 2008 Financial Crisis, GE — supposedly the best-managed conglomerate in the world — had become a lethal risk. GE did initially recover and by 2016 was again considered a *systemically important financial institution* (SIFI). But that recovery was short-lived and by 2020 GE's market capitalization was only one-fifth of its value in 2000.

After continuous M&A activity and decades of low innovation, GE management tried to transform the organization into a "digital industrial company" within a few year — without success. Fortunately, the aircraft engines business, a traditional GE operating division with annual sales of around $30 billion (a quarter of GE's total sales revenue) and a profit margin of 20 per cent, was not impacted. In fact, GE Aviation is still the world-biggest maker of aircraft engines.

The relationship between GE and Boeing is traditionally close. For one reason, GE is the biggest supplier of jet engines to Boeing.(16) And the second reason is the close relationship between top managers at GE and those at Boeing, especially over the past two decades. This is true both for Board members (McNerney, Calhoun), CEOs (Stonecipher, McNerney, Calhoun) and heads of the Commercial Aviation Group.(17) For two of the past three decades, the corporate leaders of Boeing were former GE managers: Stonecipher (eight years as CEO and COO), McNerney (ten years) and Calhoun as from 2020. It is fair to say that, because of the number of former GE top managers at Boeing, it almost turned into a division of GE.

That a corporate culture, a hierarchical leadership, can shape people is an observable fact. GE is a corporation with a strong identity, and that was shaped by the long-serving and dominant Jack Welch (less by his successor Jeffrey Immelt), with preference handed to a certain type of manager:

ambitious, aggressively competitive and hard-nosed, with a MBA to certify managerial competence.

A GE Man, as described above, is the epitome of the US professional general manager, who believes himself able and trained to lead any kind of business corporation. At GE the General Manager was the standard role model. Breadth was more important than depth. This is demonstrated by the curricula vitae of those who aimed for the top at GE. McNerney was the best (or worst) example of a GE Man.

The real managerial performance of these GE Men was mostly a disaster as soon as they networked into CEO positions at Chrysler, Home Depot, Fiat, ABB, Honeywell und other major corporations. The only positive managerial result was at Honeywell.(18) Therefore, there is no denying that CEO Jack Welch – crowned *Manager of the Century* (Fortune 1999) in his last year at GE — and his followers, did great damage to US manufacturing industry; this damage went far beyond GE and is still being felt today. Boeing is just one example. Welch was highly praised, even sanctified, by his peers and the management media, and subsequently copied by others, but time-and-time again they have been proved wrong.(19)

LESSONS

The above-said is a litany of what managers should *not* do when they are responsible for a business corporation. Today's short-term CEOs should hand over the corporation to their successor stronger than before, not weaker and needing a 'turn-around'. Although it seemed like Boeing was on the right path, it had grown too fast and was unsustainable – just like GE was. Hastening or forcing growth of a business enterprise leads to weakness not strength.

The management lessons can be summarized as maxims of corporate leadership:

1. Corporations must not only focus on shareholders. Businesses should have a superior mission or PURPOSE. Every business enterprise also has an obligation — moral, political and social — to all stakeholders: employees, customers, suppliers and the community or country in which they operate. A business enterprise should be a good citizen. In the case of Boeing, the safe transportation of people and goods should have been its first objective, and not quarterly profits or a higher share price.

2. Manager incentivization linked to shareholder value induces managers to prioritize the non-sustainable goals of short-term maximum profits and share-price related bonuses. Change must come with bonuses paid only for long-term results, because that will instill mangers with an intrinsic motivation to achieve lasting goals. The decline of Boeing is linked to the introduction of incentivized remuneration for top managers and the dividing apart of a productive community. These managerist CEOs who claim to be leading by example are like those managers who advocate *cultural change* for all. They 'preach water but drink wine'.

3. Businesses are sustained by the value they create and the employees who directly create that value. Observation shows that businesses that appreciate these value-creating employees perform better over the medium to long-term. The share of ancillary employees

who contribute little or nothing to wealth creation should be rationalized to the basic minimum. Businesses are well advised to avoid the role of General Manager and think carefully about hiring MBAs (indoctrinated with academic theory) and instead look for proven managerial performers (especially in-house) who demonstrate initiative and an entrepreneurial spirit.

4. Business enterprises must see themselves as a community, not a collection of competing individuals. As people who appreciate the benefits of shared values, loyalty, collaboration, common interests, and decentralized organizations that are transparent, understandable and human scale. These characteristics are valuable long-term not only for the business, the shareholders and the workforce, but also for society and the common good.

Boeing is a major corporate failure of the *shareholder value* culture.(20)

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NOTES

1. The business was founded in 1916 by the son of immigrant Wilhelm Böing and his wife Marie Ortmann in Seattle. William Boeing first worked in the lumber business.
2. Boeing had a peak capitalization of $249 billion, twice as much as GE. Twenty years ago at the end of the Jack Welch era, GE had been worth $500 billion. The national economic significance of Boeing is signaled by two numbers: Boeing directly and indirectly employs around 1 million people. In January 2020, the forecast annual US GDP was lowered by 0.5-0.6 percent because of the 737 MAX fiasco.
3. Stonecipher cites Jack Welch as his inspiration as a manager.
4. Lastly McNerney earned more than 3M paid in taxes.
5. As part of this expansion strategy a fusion was initiated with Embraer, a Brazilian maker of mid-size aircraft.
6. Maneuvering Characteristics Augmentation System (MCAS) is a software application to stabilize the aircraft during a wind-up turn.
7. A design principle strictly observed by Airbus is that the pilot must be able to switch off autopilot systems at all times.
8. The forward-looking 'negotiated' *golden handshake* for terminated CEOs clearly demonstrates the self-privilege and self-enrichment in managerist-run corporations.
9. The punitive/exemplary damages awarded under US laws will probably exceed the actual damage and are incalculable.
10. The concept of *Partnering for Success* proclaimed by McNerney actual meant drastic price concessions by suppliers which caused much anxiety. Some called it 'thieving from suppliers'.
11. Cutting corners is a fitting description of management practices in some prominent cases: the automotive diesel scandal software or supermarkets re-dating use-by dates on foodstuffs.
12. As was the case with Dyopol in aircraft manufacturing, a highly concentrated market.
13. The consolidation in the US aircraft industry in the 1990s is an instructive case study.
14. Boeing used its influence to have a tender for US Air Force airtankers reissued in 2008 after it had just been won by Airbus. The Airbus airtanker has been in successful operation with other air forces since 2011. The first Boeing KC-46 airtanker was delivered late in 2020 and at first was not accepted by the US Air Force. A fleet of Bombardier C-Series aircraft ordered by Delta Air Lines, USA, was penalized with a 300 per cent import tariff. As a result, Bombardier was forced to sell this aircraft division to Airbus which can assemble that aircraft (now called the Airbus A220) at its plant in Alabama, USA, and thereby avoid the 300 per cent import tax.
    There has been a WTO dispute since 2004 over Boeing claims that European countries subsidize Airbus.
15. The main components of this remuneration are annual pay bonuses, long-term incentive awards, and allocations of restricted stock.
16. GE as the leading supplier has disclosed that the 737 MAX fiasco will lower its cashflow by around $1.4 billion in 2020.
17. Kevin Allister worked for Boeing for three years before his employment contract was terminated.
18. The competitor to Jack Welch, Bob Nardelli, was named "worst manager" by *Fortune* magazine.
19. There are several critical pieces on Jack Welch and GE under www.managerism.org.
    An earlier case was the disastrous Daimler-Chrysler merger initiated by Daimler CEO Jürgen Schrempp, a declared practitioner of the *GE Way*.
20. It is noticeable that GE did not sign the Business Round Table (BRT) statement of August 2019, whose corporate signatories committed to serve all stakeholders.
    https://opportunity.businessroundtable.org/wp-content/uploads/2019/08/BRT-Statement-on-the-Purpose-of-a-Corporation-with-Signatures.pdf