

Boeing Corporation

The Challenge of Being Ethical and Competitive

“Because we dared to dream, dared to work hard, we have turned dreams into realities, to leave some huge footprints on every aerospace frontier. Now it is time to create some new footprints!” ~ Phil Condit, CEO, 1996

Boeing Chief Executive Phil Condit stared blankly at the road early Saturday evening as he drove to Boeing Headquarters. He drummed his fingers on the steering wheel, contemplating the crucial decision at hand. The Boeing Board of Directors was to gather that night to decide whether or not to fire Chief Financial Officer and Executive Vice President Mike Sears and Darleen Druyun, the Vice President of Missile-Defense Systems. Recent events had caused executives to question the appropriateness of the hiring of Druyun by Sears. Sears offered Druyun a job last year while she was employed as an acquisition official for the U.S. Air Force. At the time, she was reviewing a \$21 billion proposal for the Air Force to lease 100 Boeing 767 air-borne-refueling tankers. Boeing assigned external and in-house lawyers to review Sears and Druyun’s conduct more than a month ago. In the initial stages of the investigation the lawyers did not find any impropriety; two weeks ago however, the fate of Boeing changed when the lawyers uncovered improper contact between Sears and Druyun. The lawyers discovered evidence from e-mails and interviews that Sears’ contacted Druyun about employment with Boeing in October 2002, while she was reviewing the tanker contract. This directly violated Boeing’s hiring policies. Condit grew weary recalling that these events have surfaced only months after Boeing lost \$1 billion in government contracts and was suspended from new space contracts, following the scandal involving stolen Lockheed Martin documents.

As Condit sat at the head of the table with other Board Members, they discussed the most recent developments of the case, including statements by Defense Secretary Donald Rumsfeld and Senator John McCain that indicated further investigations and possible suspensions of government contracts. The Board realizes that the current situation could hamper the positive relations recently gained with the Pentagon. These positive relations are based on renewed emphasis on ethics at Boeing, but the Sears-Druyun scandal seems to give fuel to Boeing critics and an edge to its competitors.

HISTORY AND CULTURE

From the Battlefields to the Moon

William Boeing left Yale University to seek a life out West in 1903, the same year the Wright brothers made aviation history with their first flight in North Carolina. William Boeing expressed his vision when he said, “We are embarked as pioneers upon a new science and industry in which our problems are so new and unusual that it behooves no one to dismiss any novel idea with the statement, ‘It can’t be done’.” Soon after the Wright Brothers achievement, William Boeing began his career of building aircrafts. In 1916,

Boeing constructed his first two twin-float seaplanes and started his airplane manufacturing company Pacific Aero Products Company. Two year later, the business became Boeing Airplane Company.

World War I was the beginning of the nations' aviation involvement in combat. During this conflict, the United States began their first use of airplanes in battle. Boeing Airplane Company received its first production order when the U.S. Navy ordered 50 of Boeing's Model C planes. This Navy order, combined with an international aviation evolution, jumpstarted the rapid growth of the Boeing Airplane Company.

From 1922 to 1925, the U.S. Navy awarded Boeing with a contract to build primary trainer airplanes and subsequently bought 71 of those trainers. In 1923, Boeing began a race with the Curtiss Aeroplane and Motor Company to design the best pursuit fighter. Although they lost the race, six months later Boeing became the leading producer of fighters, a position they retained for the next decade.

William Boeing resigned in 1934 following the Depression that left Boeing Airplane Company broken into three entities. Additionally, Claire Egtvedt became president and began focusing the company engineering and production toward large commercial planes and army bombers.

By the early 1940's, Boeing was prepared to contribute to another war. During this time, Boeing was rapidly producing B-17 bombers for World War II. As men went to battle, women took over the workforce and boosted production up from 60 planes to 362 planes a month in Boeing's Seattle manufacturing center.

Immediately following the war, the military stopped buying planes and Boeing took a huge blow once again. Factories shut down and 70,000 people lost their jobs. Boeing scurried to find a new niche in the market. They began focusing on commercial jets and in 1962, manufactured two planes specifically for the U.S. President tactfully named "Air Force One."

Throughout Boeing's history, the company has consistently maintained a vital relationship with the government. This relationship encouraged the company to venture beyond that of warfare aircraft and contribute in the race to space. In 1961, when President John F. Kennedy committed to Americans that the United States would land a person on the moon, Boeing was an avid supporter of space technology. At this time, Boeing loaned NASA 2,000 executives to assist in the race.

In the early 1970's, Boeing experienced a third crisis. Boeing went 18 months without a single order for a commercial jet due to the recession in the aviation industry. In Seattle alone, the workforce was cut again from 80,400 to 37,200. There even appeared a billboard in Seattle that read "Will the last person leaving Seattle turn out the lights."

As a member of the volatile aviation industry, Boeing experienced repeated ups and downs. This consistent swing from success to struggle was difficult for employees and company

executives. “T” Wilson, the CEO of Boeing in 1969 candidly described Boeing’s orientation during times of feast or famine. He said, “When we’re flat on our backs, nobody else looks so bad because we’re so big. But when we get moving, watch out. The momentum is tremendous.” To combat this decline in business during the 70’s, Boeing turned to innovation to remain alive. Once again, Boeing decided to diversify its production offerings. This time, Boeing began selling computer products, irrigating an Oregon desert, managing housing projects, producing light-rail vehicles, constructing a desalinization plant to convert sea water to fresh water and building wind turbines.

The company again experienced improved growth in the early 1990s. Boeing began work on B-2 stealth bombers and merged with Rockwell International Corporation and McDonnell Douglas Corporation. In 2000, Boeing bought Hughes Electronics Corporation, Jeppesen Sanderson, Inc. and Hawker de Havilland.

After the September 11th attacks at the World Trade Center, Boeing’s planes were used in battle in Afghanistan restoring positive press coverage and public opinion. President George W. Bush recognized Boeing on November 9, 2001 as one of four recipients of the 2001 Employer Support Freedom Award for their assistance and donations after the national crisis.

Despite a flip-flopping reputation, Boeing has continued to be the world leader in missile defense, battle space management and space-based communications. They serve customers in 145 countries, employ workers in over 60 countries and operate in 26 states. Sales in 2003 were \$50.5 billion, 30 percent of which were international. Eighty percent of sales in Europe and 90 percent in Asia are from commercial airplanes. A smaller percent of international sales comes from Integrated Defense Systems, which acquires 50 percent of the sales domestically.

Employees: the lifeblood of Boeing

Boeing’s strength and competitive advantage in the marketplace resulted largely from the strong emphasis placed upon the importance of company employees. Boeing invests a great deal of capital into its employees’ lives and relies upon their work ethic and strong capabilities. Frank Shrontz, Boeing’s CEO in 1986, described employees as one of the company’s most valued resources. He said,

To ensure our continued success, we support our most critical resource: the people of Boeing... At Boeing, we inspire and recognize individual talent, provide job security based on performance, and foster a team spirit and the feeling of personal satisfaction that comes from a job well done.

The company strives for continual quality improvement and encourages a balanced work and life culture through their benefits programs.

Boeing’s Lifelong Learning program gives employees the opportunity of advanced education and career development. This program allows employees to finish a college

education with full benefits while at Boeing. The company attributes its high-caliber workforce and production to its dedication in the continual improvement and education of their employees. Boeing has invested over \$73 million in the Lifelong Learning Program and saw more than 1,400 Boeing employees obtain degrees in 2003.

However, Boeing's sudden announcement to move headquarters from Seattle to Chicago in June 2001, stirred up strong feelings throughout the corporation. The hasty announcement left Boeing employees and the community in Seattle outraged and uncertain of the future. Tom Buffenbarger, president of the International Association of Machinists and Aerospace Workers (IAM), which embodies 63,800 Boeing workers worldwide said,

The Seattle community has invested billions of dollars in highways, schools, and other services to help Boeing succeed...If this move indicates any lessening of Boeing's commitment to this city or to the domestic aerospace industry, if Boeing thinks they can run and hide, we have news for them. We will follow Boeing to the ends of the earth, if need be.

A similar comment came from IAM District Lodge 751 president Mark Blondin,

We are outraged at this decision, not to mention the fact that Boeing gave this Union, as well as our Governor and Congressional delegation, only five minutes advance notice before announcing it to the world. It is a sign of disrespect for the workers, the Union and this community. As a Union, we fear this is a sign of things to come and will fight with all our resources to protect every 751 job.

The most recent employee setback was the announcement in July 2003 of a 5,000 job cut by the end of the year, due to the worst downturn in airline industry history. This notice again left employees and the public weary of Boeing and its leadership.

A Rocky Past: Scandals at Boeing

Boeing has experienced tremendous success throughout its history. Though much of this success is attributed to employees, the company prides itself on the success of other assets, values and philosophies. In addition to a strong commitment to employees, Boeing focuses on running a healthy business by leveraging strengths into new products, actively seeking growth opportunities and opening new frontiers. Many of these opportunities are connected to acquiring government contracts. The co-dependent relationship with the Pentagon has led to several publicized scandals.

Government spending on defense in mid-1980s placed the Pentagon and its military contracts in a fishbowl. There were reports of the Pentagon paying outrageous prices for spare parts: \$659 for an ashtray, \$640 for a toilet seat, \$400 for a claw hammer, and \$748 for a pair of pliers. Although Boeing wasn't the only defense contractor guilty of the overcharges, it did receive special media attention for the \$748 duckbill pliers. When a government engineer reported the price tag of the pliers to a Senate subcommittee, Boeing

slashed the price of the pliers to \$90. The engineer testified that similar pliers could be purchased at a hardware store for \$7.61. Boeing dropped the prices of nearly 50 other tools included in the same Air Force contract, which was worth \$557,500. But, Boeing also tacked on a “support equipment management” charge of \$95,307 that pushed the cost of the tools to the exact amount of the original contract, \$557,500.

During this same period, government contracts were suspended and fines levied at General Electric, General Dynamics, Sperry Corporation, Honeywell, McDonnell Douglas, Lockheed, and Boeing for price gouging, fraud, and use of classified documents. The use of Pentagon documents to gain a competitive edge in contract bids was a somewhat common practice prior to the Senate investigations of 1984-1985. Frank Shontz, CEO of Boeing in the 1980s and early 1990s, said that numerous defense contractors were obtaining classified budget documents from the Pentagon without the required authorization, until the 1985 indictment of a consultant for GTE Corporation. It was common for companies to receive the documents and place them in a classified documents control log that contractors were not supposed to see. According to Dan Pinick, then president of the Boeing Defense and Space Group: “People acquired documents from the government, and the government knew it. They never stole any of them. The government gave them those documents, as far as I know.”

Two investigations into inappropriate use of classified documents by Boeing employees surfaced in 1984 and 1985. The first case, known as the Park Service case, involved a \$5.9 million contract with the National Park Service to provide a nation-wide computer network. Boeing won the contract in 1984, then gave it up when a competitor complained about the bidding process. This began a federal investigation that found two employees had used leaks and unauthorized inside information to develop the bid. The Boeing Computer Services staff in Vienna, VA, wrote nearly 40% of the proposal for bids, including the evaluation criteria. Willis Winder, a salesman, obtained part of the draft from Boeing’s competitor, and it was used for a “training exercise” in the bid effort. With such competitive advantages, it was no surprise that Boeing won the bid. Two employees involved in the Park Service case were investigated but never criminally convicted for their behavior. The statute of limitations ran out on the criminal charges. However, Boeing fired the two employees, Winder and Robert Gerard, took resignations from two others, suspended six, and reprimanded seven more. Because of these actions, the Interior Department lifted its suspension of contracts after 16 days, and threats of suspended defense contracts were dropped. In response to the firing, both employees told the press that they were “scapegoats” for higher-ups in Boeing. They didn’t deny that the information Boeing had was unauthorized, but “the fact that we had it was known and was encouraged by our top-level management, and when the (competitor’s) protest came in, they denied it.” Boeing denied any cover-up, and cited its outstanding ethics programs to prevent further problems. Joyce Ann Fleischman, deputy inspector general for the Interior Department at the time, said Boeing’s degree of cooperation was moderate. “They didn’t throw up huge major roadblocks, which can be done at times, but they were not ready to roll over and play dead.”

The second case resulted in the conviction of a Boeing marketing executive on 39 counts related to possessing secret Pentagon budget documents. Richard Fowler, who worked for Boeing from 1978 to 1986, was accused of obtaining more than 100 classified documents

from the Pentagon. Prior to his employment with Boeing, Fowler was a civilian budget analyst at the Air Force. The case arose from an investigation begun in 1984 of how military contractors were obtaining access to classified Pentagon planning documents. Fowler said his actions had been approved by superiors in the company. He said he had been asked by officials at "management levels" to obtain the documents but said they were not vice presidents or directors. "That's what I was hired to do," he said. Fowler also said that procuring these documents was common practice in the industry until the GTE investigation. During his federal trial, employees from several military contractors testified of a nine-company network whose Washington representatives traded Pentagon budget documents in the late 1970's and early 1980's. Boeing also pleaded guilty to receiving classified documents from Fowler, and paid fines of \$5.2 million.

After each of these scandals, Boeing attempted to beef up its ethics programs and to educate all employees about the legal and ethical ramifications of using insider information to procure federal contracts. Despite these efforts, Boeing continued to deal with federal investigations of overcharging and obtaining classified information throughout the 1990s. The next decade included one of the most damaging cases involving insider information, with a competitive bid against Lockheed Martin resulting in a suspension from Pentagon contracts.

Lockheed Martin Scandal

The Evolved Expendable Launch Vehicle Program

The U. S. Air Force began a program in the 1990s to find a low cost rocket launching technology. Known as the Low Cost Concept Validation (LCCV) the Air Force awarded two, \$60 million, 17-month contracts to Lockheed Martin Astronautics and Boeing Defense and Space Group in the second phase of the project. This money was granted for the pre-engineering and development of their LCCV designs. Following the success of two LCCV phases, the Air Force announced plans for the Evolved Expendable Launch Vehicle Program (EELV). The objective of the EELV program was to take the nation's space launch system into the next century by increasing operability and making the system more affordable.

In November 1997, the Air Force introduced competition to the EELV program between the two companies. At this time, the Air Force awarded Lockheed Martin Astronautics and Boeing Defense and Space Group \$500 million each for development costs, with the possibility of future contracts worth up to \$2 billion. Due to the potential financial success of an improved launch system, the Air Force also expected Boeing and Lockheed Martin to invest personal funds into the EELV project. In addition to receiving the \$500 million in development funds, both companies agreed to invest. The Air Force also hoped the competition would stimulate and strengthen the rocket industry's commercial infrastructure.

With \$500 million in development funding, Lockheed Martin and Boeing began individual planning strategies. The two companies would be competing for future contracts of 28

missions, scheduled to occur from 2002 to 2008.

Kenneth Branch - Lockheed Martin or Boeing Employee?

Prior to 1996, Kenneth Branch was an engineer working on the EELV project for Lockheed Martin. Reports confirm that in 1996, Branch began conspiring with Boeing EELV engineer Kenneth Erskine. According to Erskine's affidavit, while still working at Lockheed Martin, Branch approached Erskine in 1996 with an under-the-table offer to provide Boeing with the entire Lockheed Martin EELV proposal presentation. This proposal presentation contained confidential plans and financial information detailing Lockheed Martin's monetary estimates and costs necessary for the EELV projects. With this information, Boeing could under-bid Lockheed Martin's projects to the Air Force, increasing their chances of winning the contracts. For more than a year, Branch purportedly traveled to and from Lockheed Martin's EELV headquarters in Cape Canaveral, Florida and Boeing's EELV headquarters in Huntington Beach, California to provide Erskine with the proprietary information. In January 1997, shortly after the alleged conspiracy talks and visits, Erskine recruited Branch from Lockheed Martin under the agreement that Branch would receive a higher salary while working at Boeing in return for Lockheed Martin's EELV proposal.

Boeing Wins Proposals

On July 20, 1998, approximately nine months after the Air Force announced Boeing and Lockheed Martin's participation in the EELV competition, both teams submitted proposals for 28 Initial Launch Service contracts worth over \$2 billion. On October 16, the Air Force awarded Boeing with 19 of the 28 projects and \$1.38 billion. Lockheed Martin was awarded the other nine and \$640 million.

Short-Lived Success

Boeing's success, however, was short lived. Shortly after the announcement of the awards, an anonymous Boeing employee unveiled startling evidence to management. This employee revealed information about stolen papers from Lockheed Martin's EELV project. Following the report, Boeing initiated an internal investigation of the allegations.

During the investigation in June 1999, a Boeing attorney searched the offices of William Erskine and Kenneth Branch. The attorney found many documents labeled "Lockheed Martin Proprietary/Competition Sensitive" in the employees' offices. In August, not long after discovering the documents, the two men were terminated from Boeing.

Following the termination of Branch and Erskine, the Air Force conducted an investigation of the issue. The documents found in the offices of Branch and Erskine made up more than 3,800 pages belonging to Lockheed Martin. Thirty-six of those documents were labeled "Lockheed Martin Proprietary or Competition Sensitive." Sixteen of the documents were related to manufacturing costs of Lockheed Martin's EELV project proposals, seven of which the Air Force believed gave Boeing a significant chance to win the proposals. After the recovery of the stolen documents, United States Air Force analysts claimed that had it known about the stolen documents in 1997, the organization would have suspended the

EELV competition and conducted further investigations with the possibility to terminate the project.

In September 2002, Boeing learned of a US Attorney investigation of the company. As a result of this investigation, United State Attorney Debra W. Yang exemplified the feeling of disappointment felt across Washington. "The charges against Mr. Branch and Mr. Erskine allege that they violated the fundamental rules of fair play," Yang said. "By covertly using a competitor's secret information, they caused harm not only to Lockheed Martin, but also to the Air Force and taxpayers who finance government operations. Their improper conduct had huge ramifications because of the value of the contract."

Corporate Ramifications

Following the United States Air Force investigation, Boeing felt the ramifications of the issue. On June 25, 2003, the Justice Department charged former Boeing employees Branch and Erskine with criminal charges of conspiring to steal proprietary documents from Lockheed Martin. The two men were charged for "conspiring to conceal and possess trade secrets". According to the Defense Department, both men faced up to 10 years in prison and over \$250,000 dollars in fines. Earlier that month, Lockheed Martin filed a lawsuit with Boeing claiming that 37,000 documents were stolen.

In addition to facing lawsuits, Boeing lost its entitlement to the EELV contracts. Following an in-depth inquiry into Boeing, the Air Force announced on July 24, 2003 that Boeing had committed serious violations of federal law and therefore it would be reallocating previously awarded EELV contracts.

Undersecretary of the Air Force, Peter B. Teets, stated the results of the inquiry and ramifications surrounding the event: "Our inquiry into Boeing found that they were in possession of thousands of pages of Lockheed Martin proprietary EELV documents during the 1998 source selection. As a matter of policy we do not tolerate breaches of procurement integrity and we hold industry accountable for the actions of their employees. We believe the suspension is necessary and we hope all contractors will take note and strive to enforce the highest integrity standards in their organizations."

Teets also announced Boeing would lose up to 10 of its schedules launchings with the EELV project. These changes boosted Lockheed Martins EELV contracts to 14 and lowered Boeing's to 12, Boeing's total estimated loss of funding from the Air Force was in the ballpark of \$1 billion. In addition to the lost contracts, three Boeing Integrated Defense Systems units were suspended from competing for new Government Issue competitions. The suspension was indefinite until the government felt Boeing was ready to operate ethically.²⁸ The Air Force also granted Lockheed Martin a permit to develop a west coast launching capability by updating the existing facilities at Vandenberg Air Force Base in California.

This blow to future financial prospects and space and defense technology development hit Boeing at the worst possible time. The ramifications of the corporate scandal hinder Boeing's decisions to focus on government work due to the decrease in demand of their commercial projects.

ETHICS AT BOEING

The Defense Industry Responds

After the Senate probes into defense contracts revealed extensive fraud and insider information in the mid 1980s, the defense industry responded with increased ethics training and a stronger commitment to ethical and legal conduct. General Electric Chairman John F. Welch Jr. initiated a massive employee education and training program on ethics after GE was indicted on fraud and suspended from bidding on government contracts. The program included a 20-minute video, and the creation of a government contracts review board and ombudsman. GE also set up a hotline that employees could use to blow the whistle on unethical activities. Sperry Corporation distributed a ten-page booklet on ethics guidelines that employees not only had to read but certify they had read it. Sperry CEO Gerald G. Probst—"a Mormon described by colleagues as a stickler for integrity—personally walked around Sperry's facilities informing employees that they really meant what they said. McDonnell Douglas provided one-day workshops for employees and managers, appointed ombudsmen, and distributed videotapes. General Dynamics responded by installing formal ethics training courses, distributing a 20-page handbook, and establishing a corporate ethics office, ethics program directors in each division, and a Committee on Corporate Responsibility at the board level. As a result of these efforts, contract suspensions were lifted and competitive bids began anew.

Boeing also replied by setting up "one of the industry's best ethics programs" in the late 1980s according to then Senior Vice President Douglas Beighle. Beighle said the Park Service case led to a whole new approach to ethics. "I think it started the ethics revolution here at the company." Beighle gave a speech to 300 top employees, telling them to follow strict rules in dealing with the government, and hotlines were set up for anonymous complaints. An outside review team interviewed more than 5,000 Boeing employees to ensure they understood the rules of conduct with the government. He said more than 1,200 problems were found and corrected. Over a 2 1/2 year period, Boeing sent 15,600 managers through training on dealing with the government.

Following the Lockheed Martin scandal, Boeing realized it needed to push business ethics like never before. Senior management asked the Ethical Leadership Group (ELG) to review the company ethics program. ELG found that employees at all levels felt betrayed by the individuals responsible and saw the media coverage as "a kick in the gut" and "a stunning blow." Despite negative sentiments, the ELG also found Boeing employees believed the company had integrity and were proud to work for such a successful endeavor. Despite this optimism, ELG said changes needed to be made, including increased training, greater monitoring, and more open communication.

While Boeing employees already received yearly ethics training, the Integrated Defense Systems unit stopped work for all 75,000 employees and conducted a four-hour refresher course. The training began six days after the U.S. Air Force announced the temporary suspension resulting from the EELV issue, and emphasized enhanced awareness and understanding of Boeing's ethics policies. It also aimed to reinforce the high values Boeing hoped to place on integrity and reputation. During the training, employees were instructed on proper ways to acquire and use third-party information. IDS President and

CEO Jim Albaugh told St. Louis employees, “Nothing is more important than our reputation as an ethical company. And this event is about refocusing our attention on ethics and the values that have made Boeing what it is today.” Bill James, a senior manager with IDS in Long Beach, Calif. said, “We all have the same responsibility: Be ethical in everything we do.”

Boeing also implemented a new program in an attempt to make training more interesting and effective throughout the year. The 2003 Ethics Challenge was put forth to emphasize to employees the affect ethical decisions can have. This challenge attempted to show accountability in a culture of openness. The Challenge was built on a story line that involved employees in several ethical decision making dilemmas, aboard a hypothetical space station of the future. Employees were required to make decisions and experience the consequences, with the decisions complicated by business pressures, loyalties and friendships. To encourage employees to be ethical throughout the year, the web-based training was given in sets of three 20-minute segments instead of a one-hour block, as it was in the past.

In the most important ethical audit of the year, CEO Phil Condit asked former Senator Warren B. Rudman to lead an independent review of the company’s policies and procedures regarding ethics and the handling of competitive information. Condit announced Boeing’s intentions to make public the results of his review. “There is no doubt that our standards of behavior were violated; that is unacceptable. Boeing has a valued legacy of high ethical standards and we do not want this hard-earned reputation to be harmed by the actions of a few,” said Condit at the time of investigation.

The Boeing Rudman report came out on Nov. 3, 2003 and contained 16 recommendations to improve the ethics program at Boeing. The recommendations encompassed structural issues, hiring and training, staffing and investigations, and internal oversight. “In our review, we concluded that Boeing has gone to great lengths to establish, maintain and continually improve upon an ethics program that is impressive in its scope and detail,” Senator Rudman said. “We do not believe that any of the alleged ethics breaches involving competitors’ proprietary information represent either fundamental flaws or a systemic failure. Clearly, however, there are areas requiring improvement and our recommendations address these with the objective of strengthening the entire program.”

Finally, on Nov. 11, the company established a new Office of Internal Governance that would report directly to Condit. The office was to conduct internal audits and monitor ethics and governance. Boeing Senior Vice President Bonnie W. Soodik was selected to lead the organization. “Today’s action reflects the full agreement of our board and our senior management team that the commitment to these important areas must be set at the very top,” Phil Condit said.

Though huge company-wide efforts had been made, less than two weeks later Boeing was once again on the ethics alert. The Sears Druyun controversy has been revealed to stakeholders and media and the company who had made great lengths to make amends is once again knocked on its back. Despite public relations efforts to publicize revamped

ethical standards, Druyun and Sears have increased Boeing's struggle to build and maintain an image of an ethically responsible corporation. The new issue also jeopardizes the ability of Boeing to compete for military contracts. The suspension following the Lockheed Martin case was close to being suspension for bidding on military contracts that was near to being removed following Boeing's efforts to enhance ethical practice. Now it doesn't look good.

BIOGRAPHIES:

Phil Condit: Boeing Chief Executive Officer

Philip (Phil) M. Condit was elected to be the Chief Executive Officer and chairman of Boeing in 1997. He is the seventh chairman since the company was founded in 1916. Before holding his current position, he served Boeing for 30 years in several different capacities. When he first joined Boeing in 1965, he did so as an aerodynamics engineer on the Supersonic Transport Program. Although he started as a regular employee, he quickly moved up the chain of command to his current position.

Under Condit's management, Boeing became the largest exporter in the United States, with revenues of more than \$54 billion as of 2002. Large companies rely heavily on the leadership of management and Condit takes great pride in holding such a prestigious position. While managing the company's current finances, he worked to bring several mergers and acquisitions to Boeing. These mergers are responsible for taking Boeing from a U.S. company to a major world leader in the aviation industry. Boeing currently has strong defense, space, information technology, communications and commercial airplane programs.

Along with his success as CEO and chairman of Boeing, Condit has experienced personal success with his own innovations. Condit's love for aviation and airplane technology led him to receive his own pilot's license at age 18. Because of his personal interest in airplanes, Condit has written several papers on commercial aircraft technology, many of which have been published. Condit also holds a patent for the design of a flexible airplane wing, known as the Sailwing.

While at Boeing, Condit helped launch a new design of 777 Boeing airplanes featuring a wide-bodied design and integrated the design team that built the 21st-century jet. To build this jet team, customers, suppliers and employees were brought to design a product that would suit the needs of all parties involved. This mission to build a 21st-century jet with a qualified team of experts paid off for Condit. The team has won several awards including the Collier Award, which celebrates the success of cooperation and teamwork.

Mike Sears: Boeing Chief Financial Officer

Mike Sears joined Boeing in 1997 when Boeing merged with McDonnell Douglas, another leader in aerospace technology. Sears brought to Boeing over 27 years of experience.

Before joining forces with Boeing, he served as president of McDonnell Douglas for six months prior to their merger. Sears started his career with McDonnell Douglas as a senior

engineer for avionics technology. One of his major accomplishments while at McDonnell Douglas was the development and production of the F/A-18E/F Super Hornet program. This design is now the U.S. Navy's front-line strike fighter.

When Sears first joined Boeing, he managed the development and production of military aircraft and missile systems. While working with this division for three years, he held the positions of senior vice president and president. In May 2000 however, Sears turned over his position as president of the development and production of military aircraft and missile systems to become the chief financial officer of The Boeing Company and executive vice president.

Sears had no prior training in finance before becoming CFO. When it was announced he would be taking over the position, mixed feelings about the decision circulated amongst investors and management officials at Boeing. CEO Phil Condit however, was confident in his decision to place Sears in the position. Condit made several statements in an attempt to assure investors and management. He said, "We have built a team that allows someone like Mike, with real drive for change, to come in and do that job without the deep financial background."

According to analysts and other company officials involved, Sears' lack of financial background was his only negative downfall. Sears had an amazing track record in the industry of aerospace technology and Condit felt this would be his greatest asset to the company. In another statement, Condit spoke of Sears' capabilities and the valuable assets he would bring to the company. He said, "Mike will add fresh operational thinking to the aggressive target-setting efforts we have put into place. He also will bring vital strategic thinking to the corporate office as we pursue growth initiatives."

Darleen Druyun: Deputy General Manager for Missile Defense

Darleen Druyun joined Boeing on January 3, 2003, to work on the missile defense program. Prior to her current position with Boeing, she worked as the principal deputy assistant secretary for the United States Air Force acquisition and management. Druyun became a member of the Boeing staff shortly after ending her career with the Air Force, and her extensive history with the missile program allowed her to assist with the company's missile defense program. Because the government was the major purchaser of Boeing's defense products, Druyun had interacted with Boeing officials regularly in her previous position.

It was believed Druyun's valuable experience and long history with the Air Force and her passion for the defense program were key factors in her acquiring a position at Boeing. One Boeing executive explained how Druyun was a valuable asset for the company. "Darleen Druyun helped drive acquisition reform within the Air Force. Her 'Lightning Bolt' initiatives, which jump-started the reform process, have saved the U.S. Air Force and taxpayers more than \$20+ billion to date," said James Evatt, senior vice president and general manager of Boeing Missile Defense Systems. "Her personal passion and drive are well known within the defense industry, and we expect her to be a key player in our future success."

CURRENT SITUATION

Pressure is rising all around Condit as members of the Board of Directors cast their vote; he wondered how this issue would be resolved. Reflecting on the events, Condit recalled how Senator John McCain was the first to raise questions about the tanker proposal. In July of 2003, McCain alleged that when Boeing was battling to secure the tanker deal, Druyun improperly gave Boeing details of a competing bid from Airbus, Boeing's European rival. McCain demanded thousands of internal Pentagon documents pertaining to the tanker deal, which only served to reinforce his opposition on the project.

As McCain began raising questions and concerns in Washington, Boeing implemented their own investigation of the deal. Early in November, the investigation produced compelling evidence showing that not only did Sears and Druyun behave inappropriately, but they took great measures to conceal their actions. The investigation also revealed a possible third party. Druyun's daughter Heather McKee, who works for Boeing's military division in St. Louis, may have been involved in inappropriate actions as well. McKee reportedly communicated with Sears last year about her mother's plans to leave the Air Force and Sears told McKee about possible positions for her mother at Boeing. Boeing's internal investigation into this issue is ongoing. Since the investigation showed that Druyun gave an unfair advantage in the tanked deal, further investigation may reveal that she tainted other deals as well.

Secretary Donald Rumsfeld has announced the Pentagon's intentions to investigate whether or not to suspend the tanker deal. "We are the custodian of the taxpayer dollars. We have an obligation to see that things are done properly," Rumsfeld said during a Pentagon press briefing. "Certainly, when something of that nature occurs, one has to step back and say, 'What is it we ought to be thinking as responsible managers of this department?' "

These recent events combined with Boeing's history have made for a very complicated situation. Any action the board members decide to take will have multiple side effects, predictable and unpredictable, controllable and uncontrollable. Steven L. Schooner, an associate professor with the Government Procurement Law Program at George Washington University predicted that if Boeing fires Druyun and Sears it would cause defense companies and officials to question if the 1980's campaign for higher ethical standards was replaced by a fight for more flexibility in government contracting.

As this issue has gained public attention, the government has become increasingly concerned about Boeing trustworthiness. Not only are they questioning Boeing's ethical practices but the Pentagon Inspector General's Office is investigating communications between Druyun and Boeing surrounding the tanker deal. In addition, the Air Force said it "deplores behavior that jeopardizes the integrity of government procurement activities." Its statement added the Air Force may ask an "appropriate authority to investigate the alleged impropriety."

After all the Board members' votes were tallied, the unanimous decision to fire Sears and Druyun was announced. However, the Board also knows that firing Sears and Druyun may not be enough to regain the trust of the government and other key stakeholders. They may not be so forgiving this time around. In order to preserve Boeing's future, Condit will have

to take unprecedented measures to regain stakeholder trust.

DISCUSSION QUESTIONS

1. Should Phil Condit also resign? What would be accomplished by this action?
2. Can Boeing expect to have 100% compliance with its ethics policy? Most of the employees are following the guidelines, but it only takes a couple of employees to have an enormous impact on the company's reputation and relationship with the Pentagon.
3. Other than the Pentagon, who are the key constituents that should be addressed in this issue? What communication strategies should be used to repair relationships with these constituents?
4. How can Boeing do more to increase employee commitment to ethics?
5. Is it fair to punish a whole company because of the actions of a few individuals? Does it matter if the individuals are upper management or line employees?

CHARTS

Year ended December 31,	2003	2002	2001
Asia, other than China	\$ 6,887	\$ 7,614	\$ 7,112
China	749	1,442	1,504
Europe	3,835	5,871	8,434
Oceania	1,944	1,813	895
Africa	675	525	573
Western Hemisphere, other than the United States	1,271	669	875
	15,361	17,934	19,393
United States	35,124	36,127	38,805
Total sales	\$50,485	\$54,061	\$58,198

Chart found at:

http://www.boeing.com/companyoffices/financial/finreports/annual/03annualreport/_ncfs_10.html



Chart found at:

http://www.economist.com/printedition/displayStory.cfm?Story_ID=2246411

chart found at:

http://www.boeing.com/companyoffices/financial/finreports/annual/03annualreport/_ncfs_10.html