



THE BOEING COMPANY

AN ASSESSMENT OF THE ETHICS PROGRAM

By

Ethical Leadership Group

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Executive Summary

In September of 2003, Boeing's Vice President of Ethics and Business Conduct asked Ethical Leadership Group (ELG) to conduct an assessment of the Boeing Ethics Program. We interviewed 27 senior executives of our choosing, conducted focus groups with over 1,000 employees at 23 sites around the United States, and reviewed hundreds of pages of documents related to the ethics and compliance program.

This assessment contains many recommendations to improve Boeing's ethics and compliance program. They are offered in the spirit of Boeing's commitment to continuous improvement in the rapidly evolving ethics and compliance area and its dedication to delivering a world-class program.

When looking at the effectiveness of an ethics program, one has to look at the culture of the organization as well as the many more easily definable program components. Based on our experience with many organizations, we offer the following perceptions of the Boeing culture, as it pertains to the Ethics Program.

1. Boeing employees are proud to work for a company that is so closely associated with technological excellence and innovation, in areas considered critical for America's security and well-being. They are used to winning—being given very difficult missions, and accomplishing them.
2. Boeing employees believe they work for a company of integrity—and that the vast majority of Boeing employees are ethical themselves.
3. Employees at all levels feel betrayed by a few individuals responsible for the EELV incident, calling it and the media coverage of Boeing this summer as “a kick in the gut” and “a stunning blow.”
4. Boeing employees almost universally pine for the good old days, before the Boeing acquisition of McDonnell Douglas. In those days, *“people were treated as people, not numbers.”* In the minds of many employees, any problems are due to another legacy company. The integration of the cultures is not yet done.
5. Employees at every level—front line to senior executive—believe the company needs to do better at fostering open and honest communications. Almost all say when it comes down to a safety issue, people will speak up. However when one has other bad news to deliver, it is broadly perceived as *“career-limiting”* or at least not welcome.
6. In a surprising finding for us, most employees could not identify a clear business priority or priorities. In many companies today, the clear priority is some variation of “make money” or “make plan.” This priority, of course, has its own ethical consequences. At Boeing, the most cited priorities were “make schedule” and “cut costs,” but the lack of consensus was striking.
7. Some employees speculated that one reason that an individual might have felt it was OK to obtain confidential information from one's previous employer was because of a “win at all costs” culture. As point six above implies, we did not find at Boeing a “win at all costs” culture.

We also reviewed components of Boeing's Ethics Program. Our key findings are summarized below.

1. **Structure and Leadership.** While the core elements of Boeing’s program are a historic best practice, in light of today’s external environment and our conversations, we recommend 1) a strengthened Ethics and Business Conduct Committee; 2) an Ethics Officer who reports directly to the Office of the CEO and the Audit Committee of the Board and who is a member of the Boeing Executive Council; 3) a solid line reporting relationships between ethics officers/advisors in the field and divisional/corporate ethics officers.
2. **Ethical Leadership by Line Management.** Many of the executives we spoke with recognize that line management must own ethics and compliance in order for it to be effective. Employees believe that a lot of line managers just don’t get it, especially when “it” means responding appropriately to bad news. While performance appraisals include measures acting in congruence with values, this process should be reviewed to see how it is actually working in the field. We also recommend more focused discussion of ethics and compliance issues in the mandatory training that all new and newly promoted Boeing managers are supposed to go through.
 - a. **Communications.** While Boeing has had a code of conduct (called the *Ethical Business Conduct Guidelines*) longer than most American companies, only 76% of the employees in our focus groups remember receiving it. At the time of this review, Boeing was already in the process of revising the *Guidelines*. We concur that Boeing needs to revise the *Guidelines* document to bring it up to date with recent developments in ethics, compliance and governance. In addition, we recommend that the newly revised code be printed, distributed to all employees as part of a comprehensive roll-out, and included as a prominent and mandatory part of all future new employee orientations. We note with appreciation the ubiquitous presence of ethics and compliance posters throughout the company, and endorse continued attention to a comprehensive ethics communications plan.
3. **Training.** An outstanding 98% of the Boeing employees we met with in focus groups recall receiving ethics training in the last year—and this includes BCA employees who had not yet taken the stand-down ethics training. Our two primary recommendations for training are 1) to add a more customized, risk-based component to the annual training requirement. The core ethics training serves as a much needed organizational unifier, but more detailed training that addresses the needs of discrete employee groups would be of great benefit. This latter training may be well suited for computer based delivery. 2) Incorporate meaningful ethics and compliance training in every appropriate course at the Boeing Leadership Center.
4. **Upward Communications.** Every company wants employees to feel comfortable reporting concerns up through management. As noted in point four under culture, above, many Boeing employees (like many employees elsewhere) do not feel comfortable with normal channels. Boeing therefore has an Ethics Line that a world-class 98% of employees we met with are aware of. Unfortunately, almost half of rank and file employees do not believe this line can be called anonymously, and many employees express fear of being retaliated against and frustration at the length of time it takes to conduct an investigation. Our key recommendations in this regard are 1) Reduce the cycle time of investigations, probably through a combination of training, process streamlining, and increased accountability. 2) Increase transparency and communication on Ethics Line processes, including publicizing “anonymized” outcomes. 3) Monitor “whistleblowers” for possible retaliation in two to three years following reporting of an incident. 4) Complete a full evaluation of contracting with an outside third-party to handle calls that roll-

over during the daytime hours and provide live coverage for the evenings and weekends. This not only provides 24 x 7 worldwide availability, but offers the small minority of employees who would prefer to talk with someone outside the company a real-time alternative.

5. **Assessment and Monitoring.** Boeing is ahead of most companies when it comes to assessment and monitoring. For example, this is not the first external review that Boeing has commissioned in order to review and improve its Ethics Program. Boeing's Compliance Assessment Process is a very good example of an integrated risk assessment process. Human Resources appears to incorporate ethics measures in performance appraisals, although as noted earlier we recommend additional review to see how this is being applied in practice. We also recommend inclusion of an ethics/compliance related question in the exit interview process.

Internal Audit and the Office of Ethics appear to have a very strong working relationship. Ethics refers appropriate cases to Audit for investigation, and the issue analyses completed by the Office of Ethics are used by Internal Audit to help design Audit Plans. Internal Audit and Ethics jointly work on the Compliance Assessment Process for Boeing corporate wide. We do recommend that Ethics and Internal Audit explore ways in which Ethics might be audited on an on-going basis, in order to further extend accountability to the program in the field.

In summary, we found the Boeing Ethics Program to be above average for Fortune 100 companies, with room for improvement given the changed environment of 2003. We found well-qualified senior ethics executives committed to delivering continuous improvement in the program and the culture. We found creative and innovative approaches to communications and training. We found a culture that stands for integrity, but still has not yet fully integrated since the acquisitions of 1996 and 1997. As a result of this and the natural human inclination to not bring up bad news, we observe a culture that needs to conscientiously work on open communications and clearly identify a few memorable priorities for employees.

Most importantly, we found executive leadership that, almost without exception, gets it. They understand that ethics, compliance and integrity are not subjects for 2003 or programs for the next five years, but everyday touchstones for Boeing's success. We encourage them to be more visible and accessible to employees and line management so that their messages are clearly understood and followed. We encourage them to devote considerable leadership, time, and attention to the work on the open communication and culture issues that are so vital to the success of the organization. Finally, we recommend that they devote particular attention to helping line management recognize, understand, and implement their obligations to the standards and values of The Boeing Company.