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## Boeing Co: Ethical Failures and Business Scandals

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## Abstract

Recent advances in technology have completely changed people's outlook on the world. Instant access to limitless information has revamped consumer behavior and expectations from the companies they interact with; therefore, social responsibility has become a crucial talking point in the business world as customers increasingly monitor their actions. A recent study showed that 70% of consumers want to know how brands are addressing social and environmental issues, and 46% of consumers believe it plays a decisive factor in their purchasing decision process (Duan, Hofer, & Aloysius, 2021). Even though this has its effects in every industry, this paper will focus on the aircraft manufacturer Boeing Co. Aviation is a rapid worldwide method of transportation; it is essential for modern globalization and global business as it facilitates trade and economic growth (Uniting Aviation, 2018). Given its significant impact on business and the high risks or consequences of unethical business practices, the commercial airlines production is under more scrutiny.

Boeing Co. has found itself under heavy public scrutiny after two of the newly designed 737 MAX planes crashed in 2018-2019, costing the lives of over 300 passengers and crew members. To gain profits, Boeing Co. looked to upcharge commercial airlines on unconventional basic safety systems and 'cut corners' with regulatory agencies such as the Federal Aviation Administration by downplaying the upgrades in the new aircraft to avoid retraining and informing pilots of said new systems. In addition to this, the company fell incredibly short in its response and in its approach to addressing the incidents to the public (Peterson, 2021).

This article will discuss in detail the organizational culture of Boeing Co., how their focus on economic success over ethical practices has stained their history in the aviation industry, and how the company works to overcome their unethical past for a prosperous future.

**Keywords:** social responsibility, organizational culture, unethical past, aviation industry, safety

## Introduction

The Boeing Company is an American multinational corporation leading the global aerospace industry by manufacturing and servicing commercial airplanes, space systems, and defense products. Boeing Co. operates in over 150 countries to supply airplanes, satellites, telecommunications equipment, rockets, and more. Its continuous growth over the years has made it one of the most well-known brands around the world (Boeing, 2023). Given the nature of its business, the company undergoes business-to-business commerce as it sells to commercial airline companies and the United States government. As portrayed in Table 1, in the year ending December 31, 2021, 42.6% of total revenues came from their defense, space, and security operations. Although this division has been the largest source of income in the past year, commercial airplanes had significantly greater contributions in 2019. The decline in revenue can be attributed to the impact of the COVID-19 pandemic and the strict lockdown protocols, which severely affected their commercial aircraft operations (Boeing, 2021b).

**Table 1**

### Revenues By Business Segment

*(Dollars in millions)*

Years ended December 31,	2021	2020	2019
Commercial Airplanes	\$19,493	\$16,162	\$32,255
Defense, Space & Security	26,540	26,257	26,095
Global Services	16,328	15,543	18,468
Boeing Capital	272	261	244
Unallocated items, eliminations and other	(347)	(65)	(503)
<b>Total</b>	<b>\$62,286</b>	<b>\$58,158</b>	<b>\$76,559</b>

Through its international operations, the organization focuses on maximizing economic opportunities and advancing its sustainability and community impact (Boeing, 2022c). In Boeing Co's commercial market outlook for 2022, their 20-year worldwide Boeing aircraft deliveries report noted 2,120 deliveries of regional jets, 30,880 deliveries of single-aisle planes, 7,230 deliveries of widebody aircraft, and 940 deliveries of freighters. The worldwide breakdown of the total 41,170

deliveries is illustrated in Figure 1, with North America reporting the largest number of deliveries, Europe second, and China third (Boeing, 2022a).



Figure 1. A 20-year worldwide Boeing aircraft deliveries by region

For further interpretation of regional markets, Figure 2 displays the new commercial airplane deliveries by percentage. It is important to note that China's 21% of deliveries equate to the rest of Asia's and Europe's, respectively, and only falls short by 2% of the leading market, North America. This proves how crucial and influential their market presence is (Boeing, 2022a).

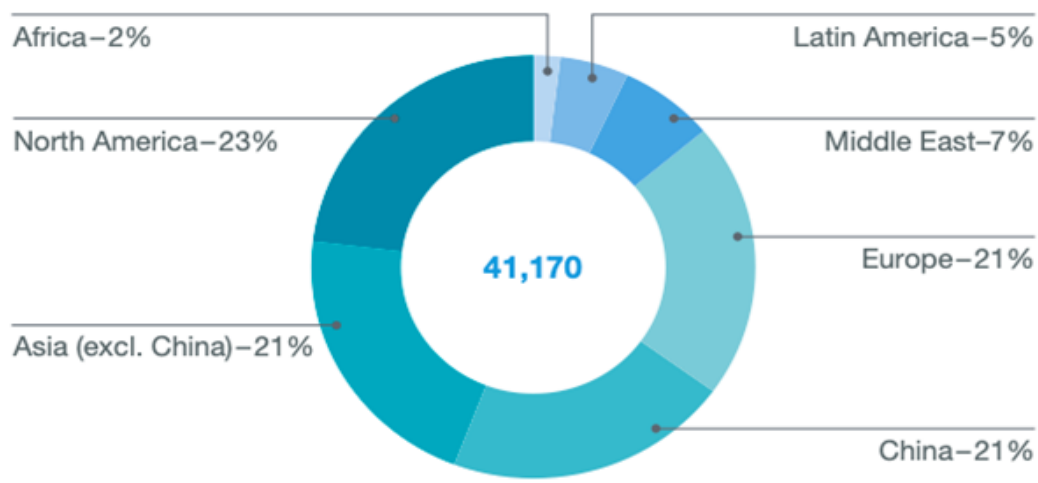


Figure 2. Projected new Airplane Deliveries by Region: 2022-2041

According to the company's official website, updated in 2021, the start of this historic corporation can be attributed to William E. Boeing's passion for aviation in the 1910s. After attending the Los Angeles International Air Meet in March of 1910, Boeing purchased a yacht shipyard on the Duwamish River in Seattle and turned it into his first aircraft factory. In the following years, engineers such as James Foley and seamstresses like Rosie Farrar began developing the first models of functional seaplanes for flight testing. In 1916, the company was incorporated by Boeing as Pacific Aero Products Co., changed to Boeing Airline Co. in 1917, and a year later, it became the supplier of the United States Navy by providing military planes such as the Model C. Boeing Co.'s first commercial aircraft successfully made flight in 1919, and the subsequent decades were characterized by innovation and expansion (Boeing, 2021a). Today, Boeing Co. is a publicly traded company valued at 24.244 trillion dollars and has reported revenues totaling 66.7 billion dollars (Yahoo!, 2023). The corporation is led by the chief executive officer, David Calhoun, who is overseen by the board of directors. They are responsible for evaluating the CEO's performance, planning his succession and committee development, reviewing long-term business plans, monitoring progression, advising management on long-term strategic risks, and overseeing the

execution of those strategies. Boeing Co's corporate governance is now periodically reviewed by their Board's Governance & Public Policy Committee (Boeing, 2022b).

Although it can be used as a representation of a corporate success story, Boeing Co. has suffered significant reputational and financial losses due to the ethical failures and business scandals discussed in this paper. The company's long-term survival will depend on its attitude towards social responsibility.

### **Literature Review**

Studies by Hoffman and Langwiesche in 2019, showed lapses due to faulty designs. "Leadership, Engineering and Ethical Clashes at Boeing" is an academic journal authored by Elaine Englehardt, Patricia H. Werhane, and Lisa H. Newton, published in 2021. Their ethical analysis examines Boeing Co's organizational problems and the resulting 737 MAX crashes. Through the research, they concluded that the corporation's focus on profitability fueled a toxic organizational culture, which eventually led to the development of faulty mechanical systems on their newly designed 737 aircraft, and the oversight caused the two major fatal accidents (Englehardt et al., 2021). Their research and (Hoffman, 2019 and Langwiesche, 2019) are the bases for the topic discussed in this paper, and the additional sources supplement it.

### **Leadership Style at Boeing Co.**

Prior to Boeing's 2018 and 2019 accidents and economic turmoil, the company dominated the industry and recorded historic sales under the leadership of CEO Alan Mulally, who took this management position from 2001 to 2006. During these five years, the company recovered after the crisis of September 11 and developed their most profitable aircraft ever, the Boeing 777. His persona was characterized as having an unshakeable confidence, being transparent, and emphasizing cooperation and teamwork. Using his charisma, Mulally articulated a compelling vision to everyone at the company and developed a strategy that would be implemented through group work (Hoffman, 2019). Such characteristics displayed by the organization's top manager can be attributed to both transformational and charismatic leadership. Transformational leadership entails a leader who communicates a mission to followers that goes beyond their self-interests while encouraging them to think and practice ethical business decision-making, which

might include promoting group cooperation, high quality and performance expectations, and intellectual challenges. These aspects can be found in Mulally's form of leadership with Boeing Co., as well as in his inspiring self-confidence and commitment through his profound effect on his employees (Thorne et al., 2011). These inspirational company leadership styles have been clouded and shifted towards focusing more on economic returns and profitability than encouraging innovation, safety, and other company values, providing more context to the lead-ups to the crashes of the Boeing 737 MAX aircraft (Hoffman, 2019).

After the fatal accidents of 2018 and 2019, Dave Calhoun was appointed CEO. In his prior leadership positions, Calhoun was described as competent, humble, and an effective communicator. His success in leading over 60,000 employees at GE Infrastructure and his exceptional talent for building relationships with regulators, suppliers, investors, and others are the necessary qualities sought by Boeing Co. to rebuild its reputation (Sonnenfeld, 2020). Again, the company operates under a transformational leadership style. Calhoun's decision to lead Boeing Co. through transformational leadership is the appropriate course of action given the circumstances because transformational leaders are much better at influencing their followers to pursue the values of business ethics and a more ethical climate (Hoffman, 2019).

### **Ethical Issues at Boeing Co.**

As a global enterprise, Boeing operates under the organizational values of engineering excellence, accountability, stability, safety, transparency, and sustainability, which are all detailed on their official site (Boeing, n.d.). Failure to abide by these values and standards negatively impacts the stakeholders and can be catastrophic at times, as seen in the Lion Air Flight 610 and Ethiopian Airlines Flight 302 accidents.

Due to the increasingly competitive success of rivals like Air Bus, Boeing felt the pressure to retain its dominant position and adjusted its business strategy to achieve better economic results. This emphasis on profitability spread throughout departments, and its influence can be viewed in the development of the new 737 MAX aircraft. To keep costs down and maintain a positive relationship with commercial airlines Boeing's customers, the redesign of the 737 MAX aimed to keep the original 1968 FAA certifications, which would mean that the airplane was

not entirely new. This is an important aspect as it would mean that to comply with these regulations, the companies would save costs by not requiring new training, airplanes would be ready to use, and the time of the process would be shortened. This becomes incredibly problematic, as the planes were indeed new, and the systems installed, such as the MCAS, were not anything the pilots had seen before; therefore, training was a requirement. The MCAS system automatically stabilizes the plane by bringing the nose down when certain metrics are met, such as the nose of the plane going up too quickly (Langewiesche, 2019). Boeing Co's shortcuts resulted in the pilots' inability to respond to such drastic movements from the aircraft due to lack of training. This is reflected in Figure 3, which illustrates the vertical speed of the aircraft in each accident (Durden, 2019).

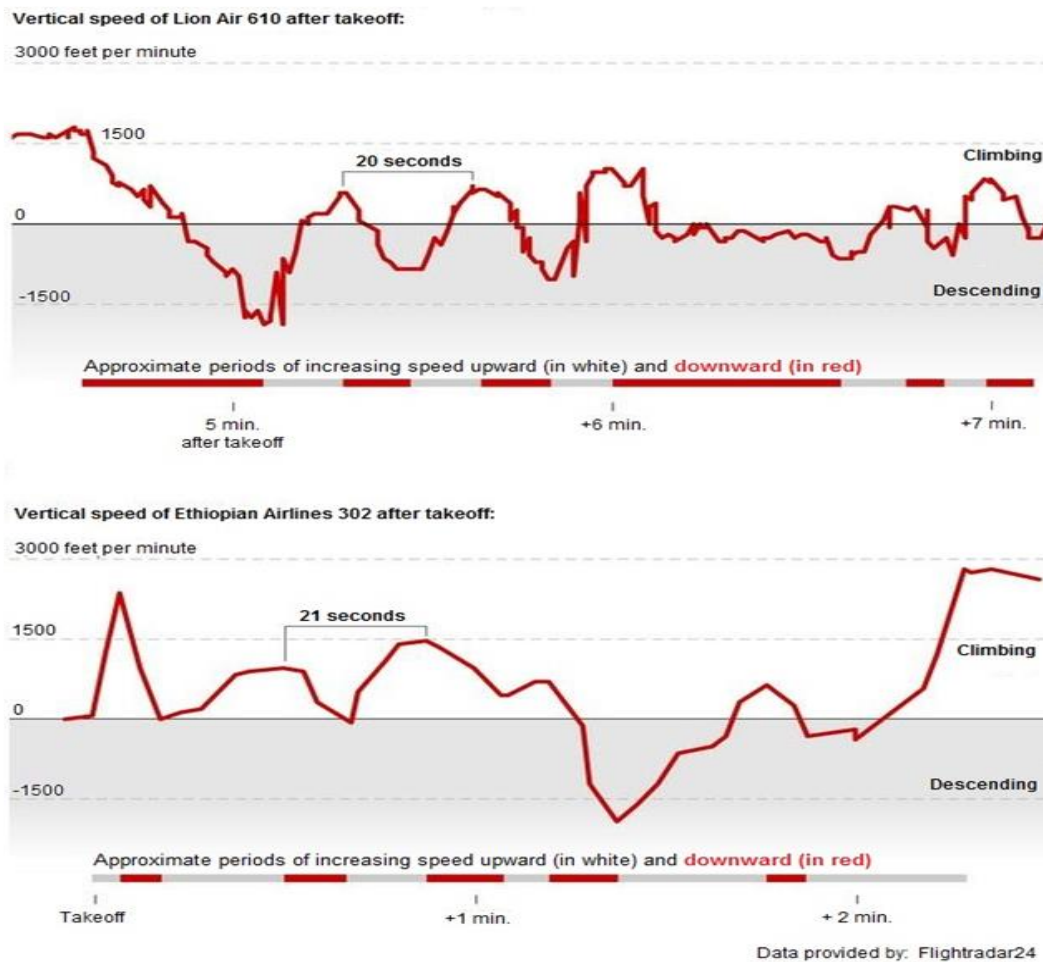


Figure 3. Boing Max 737s' Vertical Airspeeds in 2018-2019 Crashes



Moreover, the warning systems accompanying the MCAS were offered as an optional package, whereas in previous models, they were included, further illustrating the company's efforts to gain profits. Boeing's manipulation of legal loopholes allowed the company to skip steps in the process, leaving pilots unprepared for system failures. Lastly, the company's response to the accident failed to portray accountability as they continued not to mention the MCAS system and blamed the accidents on the pilots (Langewiesche, 2019).

In 2021, Boeing was charged with conspiracy to commit fraud, and the company agreed to pay over 2.5 billion dollars. The fraudulent and deceptive conduct displayed by the employees to choose profit over safety cost the lives of many, and it is a clear representation of unethical business practices (USDJ, 2021).

### **Conclusion**

After the two deadly crashes, Boeing Co. found itself in a grave state of corporate crisis. Following the second accident of Ethiopian Airlines flight 302, the company struggled to address the press and shareholders, denying any responsibility for the erroneous flight control system, and insisting that the flight crew had the ability to override any automated functions related to it. In addition, the company reassured the public that the Boeing 737-Max was safe to use and denied Indonesia's regulatory official requests for cooperation. Given the severity of the accidents, Boeing Co.'s response failed to meet corporate social responsibility standards, and only when further investigations unraveled unethical discussions and procedures within the company did, they change their approach (Jong & Broekman, 2021).

Since the crashes, Boeing Co's CEO at the time, Dennis Muilenburg, testified before the US Senate and House Committees, taking personal accountability as well as the company's. Soon after, he was replaced by David Calhoun, as the company wanted to restore confidence in this new chapter with regulators, suppliers, and customers. Additionally, the company was ordered to pay a \$2.5 billion settlement by the Department of Justice for the criminal acts of deception against the FAA. This settlement included terms of deferred prosecution in which the company agreed to pay about \$244 million in fines and set up a \$500 million fund for the families involved in the tragedies. In 2020, other settlements were pursued away from the public, and Boeing Co. began the proceedings to return the 737 Max 8 and 9 to service. After taking their time reviewing reports and undergoing FAA-

regulated procedures, the Boeing 772 Max 8 and 9 aircraft were back on the market, and grounding orders were lifted (Boghani, 2021).

Accelerated aircraft manufacturing, faulty systems, poor monitoring, deception, fraud, denial, and other merciless actions have stained the image of the aviation industry leader. Boeing Co.'s obsession with profitability disrupted its economic growth and taught the company a lesson about the cost of ignoring social responsibility. Although changes in the company culture, such as prioritizing safety, are already showing, they must continue to regain the public's trust and implement CSR programs to reattain the leadership position in the aviation industry (Boeing, 2022d).

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