Boeing Saga Underscores Need For Ethical Corporate Culture

By **Maxwell Carr-Howard** (June 7, 2024)

Maxwell Carr-Howard

In the wake of recent whistleblower allegations about The Boeing Co.'s safety culture, global CEOs should reflect on the importance of their own corporate culture and their commitment to fostering responsible, ethical and lawful business practices.

The aerospace giant — once synonymous with quality and safety[1] — has faced intense scrutiny following a series of incidents that have raised questions about its commitment to these values.

The reported erosion of Boeing's safety culture has come at a severe cost to its bottom line, its share value and its reputation.[2]

A recent Federal Aviation Administration report found Boeing's safety culture to be "inadequate and confusing," with a "disconnect between Boeing's senior management and other members of the organization." The report found this was manifested by a "fear of retaliation" when "reporting safety concerns," a lack of clear reporting channels, and confusion among employees about safety procedures.[3]

These findings are alarming, not only for Boeing, but for any organization that puts safety and quality at the center of its reputation.

A recent segment on HBO's "Last Week Tonight with John Oliver" argued that Boeing's standards declined after its merger with McDonnell Douglas Corp.[4] The merger, Oliver asserted, led to a shift in Boeing's culture, where cost-cutting and efficiency allegedly became driving forces, overshadowing the company's legacy of safety and quality.

This apparent shift has been linked to the tragic 2018 and 2019 crashes of the 737 Max and the recent midair blowout of a door panel on a Boeing-manufactured plane.[5]

For CEOs around the world, Boeing's experience serves as a cautionary tale. It underscores the importance of consistently reinforcing a culture steeped in ethical behavior, a desire to learn from mistakes and the commending of those who prevent misconduct.

Building a culture where employees feel empowered to speak up without fear, and where ethical business practices are not just a slogan but a core value that guides decision making, will improve profitability and preserve well-earned reputations.

Failing to maintain such a culture can be disastrous. Just consider the loss of Boeing's storied reputation.

Focusing on safety, compliance and ethics does not mean profit needs to take a backseat. Indeed, Boeing's profitability in years gone by was tied directly to its commitment to safety.[6] The lesson here is that profitability is directly tied to an ethical culture.

After all, the long-term cost of misconduct — whether that results in safety failures, ethical challenges or criminal conduct — eventually creates serious reputational harm and damages the bottom line. The impact of Boeing's reported shift from safety and quality to prioritizing cost-cutting is cascading, lasting damage to profitability; the loss of its most skilled employees; and retreating investors.

Building and maintaining an ethically driven culture requires a continuous commitment from the top and the middle of the organization. CEOs must lead by example, demonstrating a genuine commitment to ethical business conduct that goes beyond words. They must foster an environment where open communication is encouraged, and learning from mistakes is seen as an opportunity for improvement, not a cause for punishment.

Maintaining a strong ethical culture is never finished; senior leadership must consistently reinforce its message with the workforce. There can be no disconnect between its message and the workforce's understanding.

Engaging employees in building this culture is crucial — everyone must understand how their ethical behavior contributes to the company's profitability, and how misconduct will expose the company to reputational damage, criminal liability and financial losses.

A strong leadership commitment to these principles sets the tone for the entire organization, fostering an environment where profit and growth are natural outcomes of the corporation's emphasis on an ethical business culture.

Compensation for everyone, from the most senior person on down, should be tied to a commitment to compliance and ethical behavior. The best way to do this is to tie compensation to long-term profitability and ethical conduct.

If compensation is tied only to revenue for the latest quarter or the past year, it sends a clear signal — that revenue, not profit, is king. Such compensation schemes ignore that revenue will turn into corporate losses — undermining profitability — if misconduct produced the revenue.

A short-term focus on revenue inevitably leads to reputational damage and economic losses, as it fails to reward the profit reliability produced through ethical business practices.

Corporations should also reward those who prevent misconduct — and publicize the reward — not only because it prevents reputational damage and criminal penalties, but because it preserves profit. When misconduct does occur, corporations should reclaim compensation from those engaged in the misconduct and publicize the discipline imposed.

Prevention should be celebrated and misconduct should be penalized, because both improve profitability.

The U.S. Department of Justice has long insisted on tying compensation to ethical behavior. Now, it is preparing to provide its own cash rewards to whistleblowers, modeled on effective programs adopted by the U.S. Securities and Exchange Commission and the U.S. Commodity Futures Trading Commission.

Corporations with questionable business practices and a failure to reward ethical behavior will soon see how financial incentives from the government can turn their employees into whistleblowers.

It is far better for companies to adopt their own financial incentives to encourage ethical behavior than to see government incentives create whistleblowers.

Corporate leaders should strive to ensure that their organizations have clear, accessible, and well-understood channels for reporting compliance and ethical concerns. Employees must be confident that reporting will be taken seriously, and that they will be protected from retaliation. This requires a robust and independent system for investigating and addressing ethical issues, insulated from internal pressures and conflicts of interest.

Rewarding ethical behavior and the reporting of compliance concerns will root out misconduct, reduce risk and improve profitability.

Whether it's the example of Boeing or the risk of government-incentivized whistleblowers, it is clear that now is the time for businesses to dig deep to understand their own corporate culture and reinvigorate their emphasis on compliance with the law by educating their employees that the path to profitability is ethical business practices. Pretending it is not only invites a crisis.

Maxwell Carr-Howard is a partner and co-chair of the global compliance and investigations team at Dentons.

[1] https://www.cnn.com/2024/01/30/business/boeing-history-of-problems/index.html.

[2] https://nymag.com/intelligencer/article/boeing-planes-problems-stock-price-shareholders.html; https://www.seattletimes.com/opinion/boeings-reputation-is-in-free-fall/.

[3] https://www.faa.gov/newsroom/Sec103_ExpertPanelReview_Report_Final.pdf, https://url.uk.m.mimecastprotect.com/s/-WayCmQR1cjzx07DhOH0UE?domain=nbcnews.com.

[4] https://url.uk.m.mimecastprotect.com/s/aAlGCnrQ2s7vEy1jtN5-Mw?domain=youtube.com.

[5] https://www.newsweek.com/merger-that-brought-boeing-low-opinion-1867937.

[6] https://www.airguide.info/boeings-shift-from-engineering-excellence-to-profit-driven-culture-tracing-the-impact-of-the-mcdonnell-douglas-merger-on-the-737-max-crisis/.