

# Boeing can bounce back. Here's how

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Photo: Johanes P. Christo/NurPhoto (Getty Images)

Hi, Quartz members!

When some 33,000 Boeing machinists walked off the job this month, it was just the latest in a string of bad news to hit one of America's largest manufacturing companies and the producer of almost half of the world's passenger aircraft. The twin 2018 and 2019 crashes of Boeing 737 Max jets, and the door panel that blew out of an Alaska Airlines 737 in January, keep adding to the bad news for a company whose share price is down 60% over the past five years.

After this year's door incident, federal safety regulators cut Boeing's allowed production to 38 planes a month, less than half its capacity — a big blow to an order book of 6,165 planes, including 4,744 737s. Boeing's board ousted CEO David Calhoun and hired an outsider, Kelly Ortberg, an engineer by training and a veteran of other aerospace companies, to turn Boeing around. One of his first major moves was to fire Ted Colbert, the head of Boeing's large defense and space business. That unit is not only losing money on defense contracts right now (\$762 million in the first half of this year and about the same a year earlier), it also built the leaky tin can that has left two NASA astronauts, Sunita Williams and Butch Wilmore, trapped on the International Space Station until next year.

How will Ortberg turn Boeing around? Weekend Brief spoke with management and aviation experts and asked them what they'd whisper in Ortberg's ear.

## **Boeing's problems**

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There's universal agreement that Boeing's problems are rooted in a culture that had come to value financial engineering over aerospace engineering — and that Ortberg's key task is to rebuild Boeing as a company that is led by its engineers and puts quality, innovation, and safety first.

Boeing's problems have five root causes, said Bill George, who once ran the avionics division at Honeywell, supplying control systems to Boeing, and who now teaches at Harvard Business School. The five, he says are the five successive Boeing CEOs in the 21st century who, George argues, turned the company from an engineer-led firm focused on innovation, quality, and safety into the corner-cutting, quarterly earnings-driven behemoth that hasn't designed a new airframe in 60 years.

"The problems at Boeing stem from Boeing's culture," said David Michaeli, an attorney with Hogan Lovell who's been representing aviation industry clients for more than two decades.

"The cultural issue was a shift from quality and innovation to cost cutting," said Usha Haley, a professor at Wichita State University's business school and a longtime Boeing watcher. The problem, she said, is Boeing's outsourcing, a move that started more than 20 years ago when Boeing spun off Wichita-based Spirit AeroSystems, which builds fuselage parts. "When you outsource manufacturing, you lose control over quality and coordination," Haley said.

“They have to restore a culture of perfect quality and perfect safety,” George said. “That depends entirely on the workforce. Management can’t decree that, you can’t audit and inspect yourself into top quality, you have to design it in and you have to produce it.”

But changing corporate culture isn’t simple — or easy. It can take years to drive a turnaround. It starts at the bottom and the top, said Linda Argote, a professor of organizational psychology at Carnegie Mellon University’s business school. “You need to make workers feel free to speak up if they see a problem,” she said. And Boeing needs to empower a C-suite position for safety, Argote added, “someone who is going to be on top of safety all the time.”

That will take time, said George, who has studied corporate culture change. First, Boeing has to dump what George called the Jack Welch-inspired culture of “cut costs and don’t invest,” a favorite of corporate managers in the late 1990s and early 2000s — but which eventually led to the break up of Welch’s company, General Electric.

Ortberg, 64, needs to commit to spending a full decade at Boeing. “If you go five years, whatever good work he does will revert back,” George said. “To permanently change an older culture, with workers who have been there a long time, you have to stay with it.”

The key to Boeing’s survival, George said, is actually coming up with a new airplane. The popular 737, the workhorse of most airlines, is based on a 60-year old design. Boeing needs to invest in a new, single-aisle plane that’s based on the latest in aerodynamic design and engineering, George said. But to get a plane like that from concept to commercial certification will take at least eight years.

## **The regulators**

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Boeing also has to regain the trust of government regulators.

“The challenge Boeing faces is how do they rebuild safety, rebuild the relationship with the FAA, but keep the business going? And that’s a very tough balancing act,” said David Primo, a professor at the University of Rochester and author of a book on aviation regulation. The Alaska Airlines door panel has raised major concerns about production line quality controls.

“The FAA now is going to put Boeing on a very short leash,” said Primo. “They’re going to give them much less in the way of the benefit of the doubt when it comes to the design of planes, which could constrain the ability of the manufacturer to move quickly. So it’s going to mean that planes might take a little longer to get out of the production line and into the hands of airlines.”

## **First steps**

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Observers said Boeing has already taken the first steps to shifting Boeing's focus back to building the best airplanes. The company has agreed to repurchase Spirit, the fuselage maker, and Ortberg has pledged to move Boeing's headquarters back to Seattle, which it left in 2001 for Chicago. In 2021, executive offices moved to Arlington, Virginia, outside Washington.

Argote said that moving the headquarters back to Seattle, where Boeing has its largest assembly plant, "sends a signal about production being very important and puts [Ortberg] in a place where he can learn more and pick up on things that are happening on the factory floor."



Data through 08/31/2024

- Summary
- Orders Report
- Deliveries Report
- Unfilled Orders

# Airplane Orders and Deliveries



**6,165**  
Unfilled Orders as of 08/31/2024

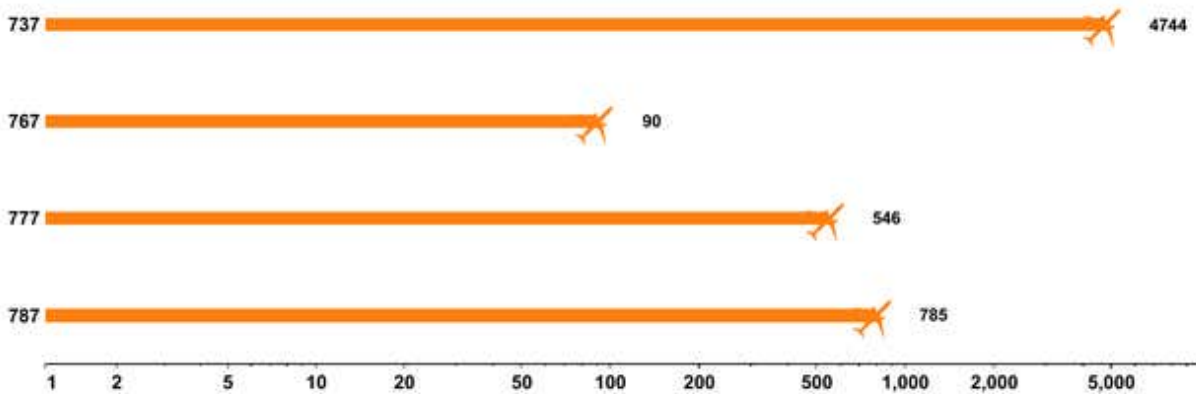
**258**  
YTD Deliveries

**250**  
YTD Gross Orders

**207**  
YTD Orders After  
Cancellations/Conversions

**122**  
YTD Net Orders

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Graphic: Boeing

## Putting out fires

The biggest problem the company faces right now is the strike. Machinists have turned down an offer of a 25% pay hike over four years, and now have an offer of 30% in front of them. But they are angry, worried the pay hikes don't help with the high cost of living in Seattle,

concerned that automation may take away many jobs, and concerned that unless corporate leadership focuses on safety and quality control, Boeing will lose.

Michaeli, the attorney, says his clients, who include airlines, are frustrated with Boeing. “People really want Boeing to be successful, and they really want Boeing to meet its commitments to its customers.” The main commitment is delivering planes. Without a sure supply of new aircraft, airlines can’t plan their routes, move passengers and make money.

Beyond the strike, Boeing has a massive cash flow problem. It has been hemorrhaging cash, losing about \$7.28 billion in the first half of the year, and ending the second quarter with only \$11 billion in cash and \$58 billion in debt.

“If this strike goes on for more than a few weeks, to keep their investment grade bonds rating, they are going to have to issue equity,” said Tony Bancroft, a former naval aviator who now manages the Gabelli Commercial Aerospace & Defense ETF. He sees Boeing issuing between \$10 billion and \$30 billion of stock. With a market cap of \$59 billion, that’s a huge dilution for existing shareholders. But once that’s done, and Boeing has the cash to restart operations, fix its safety problems, and develop a new plane, the order book will catapult the company forward.

Defense projects will also start to bear fruit, including the T-7A jet trainer for the U.S. Air Force, which has cost Boeing billions in development cost overruns — but will be a profit center once the Air Force starts taking deliveries and U.S. allies get in on it.

“Once Boeing gets operating leverage, and they’re producing 737s at even 50 planes a month,” Bancroft said, “it becomes a very profitable business again.”

— Peter S. Green, Contributing Editor

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