Boeing CFO Debby Hopkins Speaks About Washington State Global-Competitiveness in the New Millenium

Boeing Chief Financial Officer Debby Hopkins addressed the Greater Seattle Chamber of Commerce today at its 1999 Leadership Conference in Spokane, Wash. Following are the comments she made at the meeting.

Good afternoon. Thanks for the warm welcome.

It's a privilege to be here today. A privilege to be on the same agenda as Governor Locke, and Dick McCormick and Sam Smith, the presidents of our two major universities known worldwide for their research in medicine, computer science and engineering.

But most of all, it's a privilege to call Washington state my home. A year ago, I had my doubts. It was a big leap to go from Zurich to Seattle; from cars to airplanes. Now, there's no doubt in my mind that I made the right choice, none whatsoever.

I love it here, despite the rain in Seattle. And my husband, David, loves it here. My kids love it here. My entire extended family loves it here. I have trouble keeping them away.

My in-laws have flown out here from England and New Zealand. And it seems like my mother flies out from Detroit every third weekend. When I moved out here, I'm not sure if I bought a house, or opened the Hopkins Family Bed and Breakfast. But if that's the price to pay to live in God's country, it's worth it, well worth it.

Today, you asked for my perspective on what steps Washington must take to continue our success in the future...to compete globally in the new millennium.

Ask someone with a finance background a question like that, and they'll approach it like a typical bean counter. First thing: we do an audit. That's guaranteed. And most audits basically answer two questions: what do we have, and what do we need?

Well, I've done that audit - at least in my head. This state has a lot of things going for it. But we need a lot of changes to remain competitive.

We're now living in a world where companies move at the speed of the Internet just to stay in place. And the only rule of the Internet is "The first mover wins most."

Is Washington prepared to be the first mover? Is Washington prepared to move at the speed of light?

Right now, I don't think so. We can get there. But we have to take the right steps.

When businesses set out to make changes, the first thing they look at is where they are. What are their strengths? What can they build on?

Washington state should use this same approach. What are our strong points? Where do we excel? This state has a lot of strengths.

First, this is a glorious place: Puget Sound, Mount Rainier, the Columbia River, the rolling hills of the Palouse and the jagged peaks of the Olympics. I've lived in a lot of places in my life. I've seen a lot of natural beauty. Yet none is as remarkable as sailing through the San Juans at sunset, watching whales breach next to our boat.

And there's more to Washington than just our beauty. We are a global business leader. In software, biotechnology, Internet commerce and, of course, aerospace. We've built our economy around industries that will shape tomorrow.

We're also a leader in traditional industries: agriculture, forest products, manufacturing of heavy trucks and equipment.

We've got a good mix of traditional and cutting-edge; of services and manufacturing. It's a good mix for today and for the future.

So, when you look at it this way, the picture looks bright. But we can't just look at where we are. We need to know where we're going.

We need to have a vision, and a plan to get there. We need the determination to communicate it clearly, and to execute it decisively.

I said Washington has a good mix of industries for today and tomorrow. But are there any guarantees that the industries here today will remain tomorrow?

Are there any guarantees that ports in California, Oregon or Vancouver, B.C. won't make strategic investments that lure away business? Are there any guarantees that another state - or another country for that matter - won't become more attractive for Washington state businesses to operate in?

Sure, we currently have a big home-base advantage. But we can't take that advantage for granted. Just like any business, this state must constantly reinvent itself. To grow our business base in this state, Washington must constantly be on the leading edge. So, how should we go about accomplishing that? How do we build on this foundation? How do we make Washington an even stronger player in the world economy? In short, how do we make Washington move at the speed of E-commerce?

That's where we must look at the other side of the ledger. Look at the things that need to be fixed; the things that Washington needs to sharpen its competitive edge.

These items fall into three broad categories:

The first is education. Competitiveness starts with a skilled, educated and motivated workforce. A lot of progress has been made in this area recently. But we have much more to do.

The second item we need to work on is our infrastructure. For Washington's economy to continue to grow, we need a robust infrastructure. That means inexpensive sources of energy, outstanding utilities and communications systems, and a reliable transportation network.

Speaking of transportation: Let me talk for just a moment about Initiative 695. We cannot allow this to become a partisan issue. This is not a partisan issue. This is not a Puget Sound issue. This is an issue about whether our state can continue to function, and whether we continue investing in an infrastructure needed to grow.

Along with education and infrastructure, there is another item we need to work on. That's our business climate. We've got a lot of work to do in this area. We need a climate that attracts and retains the best companies, that attracts and retains the best people.

When I agreed to address this group, people in my office told me about when Boeing's former chairman Frank Shrontz talked to the Seattle Chamber eight years ago. He talked about his vision for the future, about The Boeing Company's determination to remain competitive. He also talked about challenges.

He spoke gently, as was his style. But in one brief comment, he asked whether Puget Sound could turn into an aerospace rust belt. He said it could. That's all it took.

The next day the front-page headline of the Seattle PI read, "Boeing may go elsewhere for new jets." And this came from page one of The News Tribune, "Boeing's growing… but will it be somewhere else?"

There have been some changes since Frank Shrontz made that speech. But not enough.

Let me say this straight away. We don't want Washington state to become an aerospace rust belt. In fact, quite the opposite. We want Washington to remain one of the leading aerospace centers in the world. And we want Washington to remain a global leader in software, and trade, and biotechnology, and agriculture, and E-business and all the other enterprises that call Washington home.

We want Washington businesses to continue to grow. But not at any cost.

Over the years, Boeing has made a major investment in this community. We have deep roots in this community. But we also have deep roots elsewhere. We have major investments in communities like St. Louis, Southern California, Mesa, Wichita, El Paso, Salt Lake City, Toronto and Brisbane, Australia. Just to name a few.

Today, Boeing has operations in 27 different states, two Canadian provinces and parts of Australia. We currently employ 202,000 people; 60 percent of them work outside the state of Washington.

As a result of recent mergers, we have too many facilities for our business base. We're constantly looking at ways to be more efficient, ways to consolidate like operations under one roof, ways to better serve our customers.

I'm not saying that we're on the verge of making decisions to move entire operations to other states. But we hold our managers accountable for driving cost out of our system.

Every day, mid-level managers throughout Boeing are involved in decisions that affect the bottom line. They have parts and products to deliver at certain costs. If they determine that these parts can be produced more efficiently somewhere else, they have the responsibility to recommend changes.

So when it comes to determining the best place for us to do business, the decisions are not made solely by me, or Phil Condit, or Harry Stonecipher or any of our executives. These are the result of day-to-day decisions about how to best run our business; the result of recommendations made by managers on the floor.

To help our managers make these day-to-day decisions, we recently examined the cost of doing business in all the places we currently operate. We looked at items such as labor costs, property taxes, energy costs and transportation infrastructure.

I hate to say it, but out of the 27 locations where Boeing has plants and employees, Washington came out 16th. And the main reason our state ranked that high - and I don't consider the bottom half to be that high - is because of Washington's historically

low energy rates.

This is not a pretty picture. Compared to everywhere else we do business, Washington is below average. To remain a global leader for aerospace - and a global leader for other industries - Washington has to rank a whole lot higher than that.

Raising Washington state's ranking from below average to top tier is very similar to the challenge facing Boeing right now. We are a great company with great products, a great customer base, a well-deserved reputation for quality. We're an international icon. But in recent years, our financial performance has been average. At times, it's even been below average.

The way we addressed this situation was by benchmarking ourselves against other companies, and then setting new targets and goals. Average isn't good enough. We want to be among the best. We're aiming to be one of the top-performing companies in the United States. And we're measuring ourselves against the 500 companies listed in the Standard & Poor's 500. Our goal is to be in the upper 25 percent of these companies. Or, as we say, we want to be in the top quartile.

The way we'll achieve this goal is by being more efficient, more entrepreneurial and growing every aspect of our business.

Our first step towards this goal was establishing a new measurement system. A public scorecard for the world to measure us against. We unveiled this scorecard in July. Now, we're asking customers, suppliers, investors, employees and communities to measure our performance.

This scorecard reports not only where we are, but where we want to be. This Value Scorecard will ensure that we always make the right decisions. Even when they're tough decisions.

But scoring isn't something for businesses only. Scoring can work for the state of Washington. It can help the state retain current industries - and grow our business base - by improving education, improving our infrastructure, and improving our business environment.

If we established a similar scorecard for the state, where would Washington currently rank? If we benchmarked ourselves against other states, how would we stack up? As I said before, we would be about average.

I don't want to be average. Do you? I don't think there's a person in this room who wants us to be average. We all want Washington to rank right at the top.

That's why it's time for the state to outline an agenda for business, to set specific targets, to implement a plan to get us to the top. Let's set some challenges. Tough challenges. Disciplined challenges. Let's turn Washington into a state that moves at net speed.

So what do we need to do in the area of education?

Like I said before, the best place to start is by looking at where we are. In recent standardized testing, our fourth- and eighth-grade students ranked above the national average, but only slightly above average.

There's that word again. Do we want our kids to be slightly above average? That's not good enough. We should aim to be in the top quartile of all the states in math, and reading and other skills. Interestingly enough, Washington hasn't yet deployed a program to test students for proficiency in science. How can we compete in the high-tech world if we don't have standards for science education? While we brag about our high-tech industries, other states are taking steps to train tomorrow's workforce. Other states are taking steps to surpass us.

Take Texas, for example. It holds individual school districts - and individual schools - accountable for student proficiency. And Texas rewards those schools that demonstrate improvements in student achievement.

In Washington, we're just taking the first steps down this path. We've formed a commission - the Academic Achievement and Accountability Commission - to talk about implementing accountability standards. Before other states pass us, we should stop talking about this, develop an action plan and implement it - decisively. Or, to borrow a phrase from a company in Oregon: Just Do It!

So, what should Washington do in the area of infrastructure? Specifically, how can we fix our transportation system?

Year-in and year-out, our area has topped the lists of the nation's most livable regions. But traffic gridlock is threatening the entire state's ability to function. Threatening our livability and our jobs.

Now we're holding our breath, hoping state voters take time to educate themselves on this issue and defeat I-695. Passage of this measure would be a huge step backward for Washington.

Our state depends on freight mobility: freight from the docks to the nation, produce from eastern Washington to the Port of Seattle, and parts from the Boeing plant here in Spokane to our assembly lines in Renton and Everett.

Every business in this state needs a transportation system that works. Today, our system isn't firing on all cylinders. Seattle already has the sixth-worst congestion in the nation. And some studies paint an even bleaker picture. One study says we're tied for the worst rush-hour traffic in the nation. No wonder. During the '90s, our state population has grown by nearly 1 million. But

our transportation system hasn't grown at all.

Last year, we finally began making progress. We adopted an integrated approach to transportation in the Puget Sound corridor. Now, as we're about to see some visible sign of progress, we face the threat of Initiative 695. If it passes, it will take more than a $2.4 billion dollars out of our transportation budgets during the next six years.

Don't get me wrong. I'm not against tax cuts. I am against misguided tax cuts.

This one vote would not only take money out of the state's transportation budget. It would also take money out of the transportation budgets of Spokane, and Walla Walla, and Richland, and Longview...and every other city across our state.

It will also cut funding for local police departments, fire departments and public health departments. The impact in the city of Spokane would be a loss of $2.7 million next year. $3.8 million the year after. Benton County governments would lose $10.3 million next year. Spokane County would lose $24 million. Grant County would lose $3.4 million. And the list goes on and on. Passage of I-695 would be a big blow to every corner of the state. It would hurt all of our businesses. Ultimately, it will hurt every person who commutes to and from a job.

In addition to taking money away from transportation, 695 provides no mechanism to replace this funding. Any concept to replace lost revenues from 695 would have to go back to the voters.

What's the likelihood of new taxes passing at the polls? Slim to none.

So, who will end up paying? Businesses will pay. And that will hurt Washington's ability to compete. Our transportation system is a valuable investment, an investment with paybacks any CFO would approve. As a state, we need to maintain this investment. And that starts with defeating 695 next month.

In addition to education and transportation, the final item the state needs to address is our business climate.

This issue has had my attention since the day I arrived in Seattle. There's much to report. Some good news, but not all.

Our state's economic performance, business vitality and development capacity are among the best in the nation - among the best in the world.

Here is where we have an extraordinary home-base advantage. The idea, of course, is to keep it going. To keep it growing.

The competition is getting tougher every day. The other Washington is a case in point. Washington, D.C., has always been a government town, and not much else, until now.

Today, the Beltway around our nation's capital is home to 300,000 high-tech workers. More are on the way. Experts predict that the Washington, D.C., area will soon have more high-tech workers than government workers.

Virginia is leading the charge. It's leading the charge with incentives, a very supportive business environment and a leadership focus. Last year, Virginia was the first state in the nation to create a cabinet position dedicated to high technology, a position responsible for bringing high tech companies - and high-tech jobs - to the state. It's working. Already, a large and growing proportion of the world's Internet traffic flows through Northern Virginia.

If we're not careful, this kind of competition can chip away at our home-base advantage. Washington state is a leading high-tech center. To maintain and expand our leadership position, why don't we adopt a similar approach?

Pick up any edition of Fortune magazine, or Forbes or BusinessWeek. You'll see ads from the states of Georgia, Tennessee and North Carolina. You'll even see ads from Thailand, Malaysia and Singapore. They all deliver the same message: Our state - our country - is a great place to do business.

So, why don't we have an ad? Why don't we have a cabinet-level position to promote high technology? What are we doing to attract new businesses?

But it'll take more than going on the offensive. A positive business climate involves more than ads in national magazines. It involves policy, tax structure and employment costs.

Three years ago, the state enacted a series of tax measures that helped improve the business climate. Washington decided not to assess property tax on intangibles such as intellectual properties, patents, trademarks. That may sound insignificant, but it was great news for companies like Microsoft, Immunex and Go2Net.

Still, this change isn't enough of an incentive for all the "would-be dot coms" to come to Washington and grow into the next Amazon.coms. It might not even be enough of an incentive for the established "dot coms" to stay in Washington state. Right now, Boeing is looking at where we should locate any future E-commerce subsidiaries. And Washington state isn't even among the top 10 choices.

I don't mean to imply that we haven't made some strides in Washington. We removed the sales tax on manufacturing equipment. That was significant. This was a big help for companies like Boeing, Paccar, Weyerhaeuser, Tree Top and

Longview Fiber. More importantly, it was a big help for our suppliers: for small machine shops and factories in every part of the state, from Spokane to Seattle, from Yakima to Chehalis.

Still, in Washington state, we have the fourth-highest unemployment insurance tax liability in the nation. This is nearly three times the national average. The majority of employers pay more in taxes than their workers collect in benefits. What we pay at Boeing more than covers the costs of our employees - by a wide margin. And this is costing us millions and millions of dollars.

At Boeing, we want to pay our fair share. We have no problem with that. But we don't want to subsidize other employers. Yet, due to an antiquated tax structure, we also pay the unemployment cost of seasonal and part-time employers.

One of the first things I did when I joined Boeing was look at ways to address this issue. I challenged our tax consultants, and they came up with methodologies to drastically reduce our unemployment insurance tax liability. But all this would have done was shift the burden to other Washington state companies. That's not right. That's not the way to address this problem. But if Washington wants to attract businesses and keep businesses, this problem needs to be fixed.

Washington ranks ninth highest of all 50 states in fees and assessments on businesses. Compared with the six other Western states, we pay the highest business taxes as a percentage of gross state product. Our labor costs in Washington are among the highest in the nation.

When you add it up, it's not the best environment for business.

At Boeing, our focus is on growth. We're looking for new ways to meet the needs of our customers. Instead of just building airplanes, we're moving into the business of maintaining airplanes, modifying airplanes, training pilots and crews, selling engineering services to military and commercial customers, expanding our financing operations and growing our space business.

We have many core competencies in aerospace. Now we want to expand our horizons. We want to grow and capture a larger piece of the aerospace pie.

We're going to grow in ways we've never grown before.

That is good news for Boeing, for our communities, for our shareholders and our employees. This growth will provide new job opportunities throughout the company.

When we look at where to grow our business, we'll look everywhere: around the country, around the globe.

We'll look at a number of variables, including where our customers are located, where can we find the best-trained workforce, and where is the most cost-efficient place to conduct business.

We want to grow in Washington. Unfortunately, right now, Washington isn't a top competitor. The business climate isn't right.

Collectively, we can fix that. We can put our state back on top.

Now's the time to raise the standards. Now's the time to make Washington the world's best place to do business.

In this state, industry, government and schools have a long history of working together. Together, we've created one of the most vibrant economies in the United States.

We must build on this foundation. Together, we must create a vision to make Washington the best place to do business.

Let's set tough targets to strengthen our education system. Let's adopt a disciplined plan to bolster our infrastructure. And let's significantly improve our business environment. And this starts with defeating I-695, fixing our unemployment tax system, and making the investments needed to grow the business base here in this state.

That's what it's all about. Finding a way to grow. But we've got to act quickly and urgently.

Let's build a plan, move forward and execute. Let's do it decisively - with velocity and at net speed.

Together, we can be unstoppable. Together, we will do great things.

Thank you.

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