Testimony by Jim McNerney to Senate Armed Services Committee on the Boeing-U.S. Government Global Settlement

Thank you, Mr. Chairman and members of the Committee.

It is my privilege to represent the 155,000 men and women of Boeing. And while I regret the circumstances that bring me here before you, I appreciate all the same the opportunity to testify.

I have been asked to address the recent "global settlement" of two high-profile investigations--which I will do. But in that context, I hope also to discuss why, going forward, the Congress and the taxpayers of this country can place their trust in Boeing.

Companies doing business with the U.S. government are expected to adhere to the highest legal and ethical standards. I acknowledge that Boeing did not live up to those expectations in the cases addressed by the settlement we're discussing here today. We take full responsibility for the wrongful acts of the former employees who brought dishonor on a great company and caused harm to the U.S. government and its taxpayers.

Boeing is accountable for what occurred. And we have cooperated with the government throughout this process.

This settlement is tough--but fair. It has been widely reported as probably the largest monetary settlement of its kind--a sad "distinction" we must live with and learn from. Coupled with the loss of $1 billion worth of Evolved Expendable Launch Vehicle business and the huge toll these matters have had on our reputation, the settlement serves as a stark reminder of the direct impact that unethical conduct can have on our bottom line.

Further, we recognize that the mistakes were ours and ours alone. And the problems that enabled those mistakes are ours to correct. Accordingly, we are not taking tax deductions for the $615 million in settlement charges that we have paid to the U.S. government.

Beyond the very real financial consequences of the settlement, I think it is important to note that the events, themselves, have caused an immense amount of introspection at Boeing. How could a company with a history of reliability and a self-image of unquestioned integrity have made these mistakes?

This introspection set us on a course of building one of the most robust ethics and compliance programs in corporate America. That is the lasting legacy--and silver lining--of this dark cloud in our history.

Ultimately, our goal is to make ethics and compliance aclear competitive advantage for Boeing. Our people, and their values, along with our leading-edge technology and products, are why our customers choose--or choose not--to do business with us.

So, we aspire to do more than just stay out of trouble. To do that, we are making ethics and compliance part of our leadership agenda--and expect this will become a powerful discriminator for our company.

To strengthen our culture, we have been changing in three major ways.

First, we are **getting committed and getting aligned**. For example, every employee, each year, personally recommits to ethical and compliant behavior three ways: by going through a thorough training regimen; re-signing the Boeing Code of Conduct; and participating in one of our Ethics Recommitment stand-downs with his or her business or function.

Also, in November 2003, Boeing established a new organization--the Office of Internal Governance--which reports directly to me and has regular, and routine, visibility with our board of directors. OIG's role includes:

1. Acting as a strong check and balance for key functional disciplines. An example would be monitoring and tracking such things as potential conflicts of interest through out hiring, transfer and proposal processes.
2. Providing significantly greater visibility into--and oversight of--specific ethics and compliance concerns and cases for our top leaders.
3. Consolidating, in one organization, our various investigative, audit and oversight resources. This way, we are able to identify potential problems and take corrective actions earlier.

Second, we are **opening up the culture**. And this is critical. We are creating a work environment that encourages people to talk about the tough issues and to make the right decisions when they find themselves at the crossroads between meeting a tough business commitment and doing the right thing. There simply can be no tradeoffs between Boeing's values and Boeing's performance. We want people to know that it's OK to question what happens around them, because that's what surfaces problems early. Silence that ignores the misconduct of fellow workers is not acceptable.

Finally, we are driving ethics and compliance through our core leadership development model, not just off to the side of other things we do every day. At the end of the day, the character of an organization--its culture--comes down to the behavior of its

leaders. I believe this is key: Ethics and compliance must be--*and must be seen to be*--a central part of the whole system of training and developing leaders, and of the whole process of evaluating, paying and promoting people.

When I joined the company a little more than a year ago, Boeing was already well along in addressing the weaknesses that a combination of internal and external reviewers had identified. But I wanted us to go even deeper--back to the basics of who we are--to mold the kind of leadership that we want to take Boeing into the future.

So, first, we defined how we want leaders to behave in terms of both performance and values--in the form of six leadership attributes: A Boeing leader must *chart the course, set high expectations, inspire others, find a way, live the Boeing values*; and, at the end of the day *deliver results*. Now we are modeling, teaching and expecting these behaviors, as we move toward measuring and rewarding them.

Today, we are familiarizing people with the attributes--helping them understand that "find a way" doesn't mean "find any way;" it means "find a way within the Boeing value system;" or that "setting high expectations" doesn't mean that inappropriate or intimidating behavior is acceptable in any way.

Starting with the top of the company, we have also begun to directly measure and factor into the whole pay and promotion process the kind of behavior we want in our people.

Mr. Chairman and members of the Committee, in my 14 months as the company's chairman, president and CEO, I have made it my mission to understand the root causes of what went wrong in years past. And I can attest that those former employees referred to in the settlement do not represent the people of Boeing, who are devoted to conducting their work ethically and in the best interests of our customers and our country.

Boeing is fully committed to operating at the highest levels and standards of ethics and compliance. I will continue to do everything in my power to ensure that the company never finds itself in a situation like this in the future.

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