BOEING
WHAT REALLY HAPPENED
Flawed strategy.
Lax controls.
A weak board.
Personal shortcomings.
CEO Phil Condit lasted longer than he should have.
BY STANLEY HOLMES (P. 32)
The really surprising thing about Philip M. Condit’s resignation as chairman and chief executive officer of Boeing Co. was not that his seven-year tenure ended so abruptly on Dec. 1, but that it lasted so long. Recent allegations of questionable conduct by a Boeing executive involved in negotiating an $18 billion deal with the Pentagon was only the latest mishap in a series of ethical lapses and managerial blunders that marred Condit’s tumultuous reign from the start.

Condit’s resignation has been portrayed as the selfless gesture of a leader who put the company’s interests before his own. In fact, Condit had survived an array of crises before this latest upheaval, and the chairman had no intention of bailing out this time, according to people who are close to the company. But with its crucial defense business in jeopardy, a board that had overlooked missteps before finally took firm action. The CEO had to go. Under pressure from the board, Condit offered his resignation. According to an old friend who talked to him on Monday night, the CEO was distraught. Condit and Boeing insist his exit was voluntary.

A BOLD VISIONARY
The story of Philip Murray Condit, 62, is the tale of a manager promoted beyond his competence and blind to his own shortcomings. The skills that made him a brilliant engineer—obsessive problem solving and an ability to envision elegant design solutions—were of less use in an executive position. Although always a bold visionary, Condit was frequently indecisive and isolated as a CEO—in stark contrast to his predecessors. Starting with founder William Boeing, the company has been led by a succession of strong, commanding leaders who enjoyed near-total autonomy, displayed unwavering devotion to a culture of engineering and manufacturing excellence, and led modest personal lives. Condit may have enjoyed a similar degree of latitude, but he was further removed from the company’s operations. He also developed a reputation as a womanizer, often with Boeing employees, and an appetite for the high life. In a hiatus between one of his four marriages, Condit took up residence in the Boeing suite at Seattle’s Four Seasons Olympic Hotel, where he had the suite remodeled at company expense to add a
an outsize effect on the Boeing culture.

mix but the smaller McDonnell also had

tracting a much bigger part of Boeing's

only did that deal make defense con-

acquisition of McDonnell Douglas. Not

crucial step in that process was the 1997

more deeply into defense contracting

scandals.

there is no evidence linking Condit to the

lowing his subordinates to play business

huge amount of defense business by al-

tute in Arlington, Va. “Condit booked a

defense analyst at the Lexington Insti-

ment, says Loren Thompson, a

ethics seemed to lose sway over senior

"Under Condit, engineering skills and

most esteemed at McDonnell were the

line workers—as family. But the values

Seattle, had always prided itself on treat-

employees—from designers to line workers—as family. But the values

more deeply into defense contracting

represented a historic shift. The most

decision to steer the company

more deeply into defense contracting

represented a historic shift. The most

crucial step in that process was the 1997

acquisition of McDonnell Douglas. Not

only did that deal make defense con-

tracting a much bigger part of Boeing’s

mix but the smaller McDonnell also had

an outsize effect on the Boeing culture.

Boeing, the jewel of its hometown of

Seattle, had always prided itself on treat-

ing employees—from designers to line workers—as family. But the values

most esteemed at McDonnell were the

ability to schmooze with Washington

power brokers and win the contract. Building planes sometimes seemed to

take second place.

And with McDonnell came a new

No. 2 exec, Harry C. Stonecipher. The de-

cise, brutally candid Stonecipher was the temperamental opposite of the aloof,

nonconfrontational Condit. Many inside

the company came to view him as an en-

forcer. The relentless bottom-line focus

Stonecipher brought to bear during his

stint as president antagonized many

managers on the Boeing side of the

house. Condit’s 2001 decision to move the

company headquarters to Chicago com-

pleted the cultural uprooting, leaving

many of those left behind in Seattle feel-

ing a bit like unloved stepchildren.

Condit had been steeped in the Boeing

culture for more than 30 years. He

cought the eye of Boeing’s top brass al-

most as soon as he arrived at the compa-

ny in 1965, fresh out of Princeton with a

master’s degree in aeronautics. Early in

Boeing lost control of its commercial airplane plants in 1997 by trying to pump out a record number of airplanes. The chaos forced Boeing to stop two assembly lines so workers could catch up. That cost the company more than $2.6 billion and forced its first annual loss in half a century. In 2002, Boeing paid $92.5 million, without admitting guilt, to settle a shareholder lawsuit alleging it had papered over the mess.
his career, he solved a vexing problem by calculating the force of the vortex created when jumbo jets take off. This allowed the Federal Aviation Administration to develop rules for safe spacing between jumbos and smaller aircraft, rules still in effect today. It was that problem-solving skill that attracted the attention of Thorn- tony A. “T” Wilson, then Boeing’s chairman and CEO, who took the engineer under his wing. “It was clear that young Condit was a standout engineer and person,” recalls Granville Frazier, a retired Boeing senior exec and longtime friend who first met Condit in the mid-1960s.

Later, Condit’s design leadership on the 757 and 777 programs positioned him to take over the top job. But although he won great praise for his engineering prowess, some say both programs were riddled with problems that resulted from poor management. On the 777, for example, Condit made some inspired design breakthroughs, most notably switching to software that allowed Boeing to go directly from a design on the computer screen to the factory floor, avoiding expensive mockups. But Condit wildly overshot his initial budget. The plane was budgeted for $6 billion in development costs but ultimately cost $12 billion, say close observers. “We were milking money from the 767 and the 737, and that money was going right into the 777,” said one former high-ranking Boeing exec. “Even though it’s a wonderful machine, on a stand-alone basis, the 777 is not a commercial success.” Boeing declined to discuss development costs, saying they are proprietary.

Once he reached the top spot, Condit’s shortcomings as a manager became more worrisome. Within a year of taking office, Condit overreached in trying to step up airliner production even as the company was shifting to a more automated manufacturing system—the equivalent of replacing the engine on a race car as it wheels around the track at 200 mph. Boeing’s massive Seattle assembly lines nearly broke down in 1997, a year after he assumed office. By the time order was restored, the company had lost most of its credibility on Wall Street—a humiliation that seared the new CEO. In a meeting on Aug. 5 of that year—with more than two dozen senior execs in the board room of Boeing’s then headquarters in Seattle—Condit complained about the embarrassment he had suffered while trying to soothe angry investors on the East Coast, the production fiasco, and a slumping stock. With tears welling, Condit vowed he would never suffer such indignity again. In a talk this year to plant workers, Condit took responsibility for the stumble, saying: “I give myself a very poor grade. It happened, and so it’s my responsibility. There’s my F.”

THE FALL GUY

But Condit’s problems were far from over. By the spring of 1998, with earnings struggling, global markets in a nosedive, and the stock under pressure, investors were calling for Condit’s head and pressuring directors to do something. Condit saved his own position, but others were not so lucky. On a Saturday in early September, he called Ron Woodard, then president of the commercial airplane division, and asked him to come to the office. Condit told Woodard this hurts me more than it hurts you—and fired him. Woodard became the fall guy for the manufacturing collapse. “He told me he had a real close brush with the board, and he was almost dumped two months before,” Woodard told BusinessWeek.

But if there was any lingering sense of
shame, it didn’t deter Condit from his taste for lavish living. In the early ’90s, he built a massive medieval-style mansion outside Seattle, replete with a custom miniature train that chugged from room to room, delivering drinks to guests. Condit hosted elaborate parties that often included poetry readings and evenings of Camelot themes, featuring characters from King Arthur.

That extravagance soon began filtering into a company culture that had been based on modesty, fiscal restraint, and the single-minded pursuit of building big airplanes. Former CEOs Bill Allen and T. Wilson both eschewed the trappings of corporate privilege. Wilson lived in the same middle-class house during his whole career at Boeing. When Condit succeeded Frank Shrontz as CEO in 1996, Boeing had three small corporate jets, and senior execs were required to fly commercial airlines to stay in touch with their customers. Now, Boeing has a fleet of corporate jets, including a 737 for Condit, done up in English-library style.

RAISED EYEBROWS
CONDIT’S PERSONAL life was similarly prone to excess, and it began to raise eyebrows within the company and among directors. After his second marriage, to a Boeing secretary, broke up in 1990, Condit embarked on a relationship with a Boeing receptionist, Laverne Hawthorne. They dated for about six months—until Condit got promoted to president in 1992. About the same time, the company’s customer relations department downsized, and Hawthorne was issued a pink slip. She told BusinessWeek that she immediately went to see him in his office and reminded him of promises he had made to her. As Hawthorne recalls it, she looked him in the eye and said: “One of us in this room has balls, and it certainly isn’t you.” Then she stormed out. Hawthorne declines to say whether she filed a wrongful-termination suit against Condit or received a settlement from the company, but several Boeing executives say both happened. “There was a lawsuit and a settlement,” said one Boeing exec. Condit declined to comment.

As Condit’s airplane factories were imploding in 1997, so was his third marriage. That’s when he moved into the suite at the Four Seasons. Condit had married Jan Condit—his first cousin—in 1990, Condit em-
believes that smaller planes and direct flights will prevail against Airbus’ A380 jumbo jet, and says it’s focusing on profits, “not market share at any cost.” But while Airbus is well under way with the A380, Boeing has still not committed to its latest proposal: the superefficient 7E7 jethliner. The company says it will make a decision on whether to go forward by the end of the year. Condit recently told employees: “I would not trade strategies for any amount of money.”

Partly to deal with the cyclical nature of the airplane business and the rise of Airbus, Condit took steps to diversify his company. Boeing started gobbling up big and small aerospace and information-service outfits. Condit gets high marks for the McDonnell Douglas acquisition. Although the clash in company cultures raised serious management challenges, it let Boeing expand in defense as its commercial business waned. Defense-related sales now account for more than half of the company’s revenues, making Boeing the nation’s No. 2 defense contractor.

But as Condit got the acquisition bug, some of his forays failed to bear fruit. In late 1999, Boeing bought Hughes Electronics Corp.’s Space & Communications Div. for $3.75 billion and later paid $1.5 billion for Tribune Co.’s Jeppesen-Sanderson Inc., the world’s largest provider of flight maps and other services for pilots. Boeing hoped to capture more of the higher-margin services businesses and expand Hughes’s fledgling satellite services business. Many investors at the time supported Boeing’s belief that space, in particular, represented a huge growth opportunity and would add more balance to the volatile commercial airplane business.

**SNOWBALLING SCANDAL**

**BUT CONDIT LATER ADMITTED** that he was wrong. He told Everett (Wash.) employees this summer that the space market “did not turn out to be what we thought it was going to be, and we didn’t perform.” The $1.1 billion charge was the latest in a series of write-offs related to a collapsing space market as well as to serious quality and manufacturing problems dogging the former Hughes satellites. Boeing officials are still trying to turn it around. “I’ll be the first to admit that the commercial space business was a dry hole,” Jim Albaugh, CEO of Boeing’s integrated defense systems unit, told BusinessWeek. “But we are in good company, and a lot of good people had the same aspirations and had the same problems.”

But if strategic blunders and failures to execute can be overlooked by a board, scandal can’t be. Not when you’re a defense contractor. A snowballing ethics problem threatened to imperil the side of Boeing’s business that was still growing and healthy: its lucrative government contracts. In the end, that’s what did Condit in. The intense scrutiny of Boeing’s misconduct is just heating up. On Dec. 2, the Pentagon postponed action on the $18 billion Air Force deal to acquire 100 Boeing 767 tankers, pending an investigation into the actions that led Boeing to sack Chief Financial Officer Michael Sears and manager Darleen A. Druyun for ethics violations. The Justice Dept., two investigative branches of the Defense involved the possession of 35,000 pages of Lockheed Martin Corp. documents during the 1998 competition for a military rocket-launch contract. The Pentagon has indefinitely suspended Boeing from bidding on future rocket contracts pending a review of its ethics. Lockheed Martin is also suing Boeing over the alleged document theft.

Condit was not personally implicated in either of this year’s Air Force scandals. But the recent fusillade of embarrassments was too much even for Boeing’s famously forgiving board of directors, which had been paying out $ope to Condit for years. After Condit resigned, the board awarded the CEO title to one of their own, Stonecipher, 67, who had served for five years as Condit’s No. 2 after Boeing acquired McDonnell Douglas. At the same time, the board named director Lewis E. Platt, the former chairman of Hewlett-Packard Co., to the new post of nonexecutive chairman.

Stonecipher’s mettle will immediately be tested by a momentous decision. By Dec. 15, the board is expected to decide whether to commit to the development of the 7E7 jethliner, which would be Boeing’s first new airplane in a decade. The decision will say much about Boeing’s commitment to the commercial airplane market. “This is really a pivotal moment,” says Richard L. Aboulafia, an aerospace analyst at Teal Group Corp. consultants. “Failure to invest in the 7E7 could mean the beginning of the end for Boeing’s storied airplane business.”

To many, the ascent of Stonecipher represents the de facto takeover of Boeing by McDonnell Douglas. Condit’s most enduring contribution to Boeing’s history may be ensuring the transformation of Boeing into a defense contractor with a commercial aviation subsidiary—an ironic legacy for a brilliant aviation engineer.

**NEW TEAM**

Stonecipher, a former McDonnell exec, is now CEO, and ex-HP boss Platt is chairman.

Dept., and the Senate Armed Services Committee are investigating allegations that Boeing acted improperly, or even criminally, in an effort to win at least two multibillion-dollar aerospace defense contracts. A second scandal, dating from 1998,