

# Analysis of Management Issue at Boeing



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3<sup>rd</sup> August 2019

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## 1. Introduction

Two highly publicised 737 MAX crashes, Lion Air Flight 610 in October 2018 and Ethiopian Airlines Flight 302 in March 2019 have cast a negative light on Boeings internal management and its reputation as a global corporation. The Boeing 737 MAX airliner was grounded after Boeing recorded \$4.9 billion in lost revenue and expenses. Boeing was then sued for allegedly concealing flaws in the airplane. Boeing company executives were accused of cost-cutting, over more than a decade, resulting in low worker morale and reduced engineering staffing, as possible causation for the two crashes.

The link between issues in Boeing's function of management known as organising and the aforementioned crashes will be analysed in this report. Reports of cross-department blaming has negatively impacted Boeings reputation as a renowned aviation company. Organisation is a vital function of management involving the appropriate allocation of resources and labour to complete projects and achieve goals. In relation to the 737 MAX, "Boeing (BA) is making another change to its 737 Max flight control software to fix a problem that was discovered in June" (Investor Business Daily, 2019). Since the grounding, Boeing has focused its public image on improving quality assurance procedures, upgrading communication channels and software to better organise the company as it works towards a functioning 737 MAX model towards the end of 2019. This is an indication of the organisation efforts of Boeing's public relations teams, specifically in relation to quality assurance and product management, however there is more work to be done.

In addition, Boeing has focused its company image around more positive aspects of its new innovations such as the development of space exploration technology "we're designing and building the future of safe, assured space exploration and commercial access" (Boeing: Space Overview, 2019) This is an intelligent decision from an organisational standpoint as it distances Boeing from the detriments of the 737 MAX models, and shifts consumer focus onto the new phases of its business. The public relations arm of the Boeing corporation is responding effectively to the product defect of the 737 MAX. "Given a clear mission, core values, objectives and strategy, organising begins the process of implementation by clarifying jobs and working relationships." (Schermerhorn, 2016) Indeed, much care needs to be taken to increase accountability in the matrix structure of Boeing as an organisation and to improve public image to key stakeholders.

This report studies the organisational flaws that led to a defect in a globally-distributed airliner, that resulted in the deaths of 346 people and makes suggestions to assist with Boeing's adaptation to the shifting external environments. It will also make recommendations, in the context of Boeings management problem and how it relates to the organisational function of management, to assist with damage control and focus on higher quality airliners.

## 2. Analysis of Management Issue

### 2.1 Importance of strategic organisation

Organising is a vital component to the process of management; it would be very difficult to achieve goals without the appropriate allocation of resources and labour. While organisations have traditionally adopted a functional structure to achieve goals, (Schermerhorn, 2016) explores different styles of organisational structure in different companies from a variety of industries and states that organisation “identifies who is to do what, who is in charge of whom, and how different people and parts of the organisation relate to and work with one another. All of this, of course, can be done in different ways. This is where an understanding of situational contingencies becomes important”. In the context of Boeing’s ‘situational contingency’, departments in the company were quick to shift the responsibility of the defect, before addressing the problem directly, leading to a loss of consumer confidence and sparked lawsuits from families of the deceased.

Organising is a function in which the synchronization and combination of human, physical, financial, and information resources takes place for the achievement of the results.

(Organizing – A Management Function – IspatGuru, 2019) Because of this, having a clear and well-communicated organisational structure is essential to ensure products are delivered to a high standard and meet deadlines. It cannot be argued that strategic organisation is not essential to the management process, despite there being different views on what constitutes strategic organisation. Schermerhorn references to the functional chimneys problem, also known as silos. This refers to the lack of communication, coordination and problem-solving across functions. Because the functions become formalised, not only on an organisation chart, but also in the mindsets of people, the sense of cooperation and common purpose breaks down.

In the context of Boeing, it can be inferred that internal workings of the company suffered from functional chimneys in the lead up to the crashes of the 737 MAX model as departments began to blame each other rather than shoulder the responsibility of the defective model. ‘My family won’t fly on a 737 MAX. It’s frightening to see such a major incident because of a system that didn’t function properly or accurately’ Adam Dickson, a former engineer of 30 years at Boeing” (Togoh, 2019). Additionally, strategic organisation is a long-term initiative to better allocate the resources and labour of a company to achieve medium to long-term goals. As stated by Chandler, ‘structure follows strategy’. An organisation’s structure must support its strategy if the desired results are to be achieved...Operating objectives are likely to include the need for innovation and flexible responses to changing competition in the environment.” (Schermerhorn, 2016) If Boeing focussed on more cross-company communication of new projects such as the 737 MAX, the defect would have been identified and fixed before the model was distributed to airlines, saving the lives of 346 people.

For this reason, one of the primary recommendations in this report is that the company commence intensive cross-training of its departments to increase communication and functionality during the production process. Today, the vertical and control-oriented structures of the past are proving less sufficient for mastering the tasks at hand.

(Schermerhorn, 2016) One of the biggest recommendations in this instance would be to centre the organisation around processes, and defects, rather than functions.

## 2.2 Organisational structure

Boeing's matrix structure was under scrutiny in wake of the 737 MAX crashes. As companies become more accountable for more internal transparency, they also become more susceptible to criticism for when things go wrong. "Organisational structure is the system of tasks, workflows, reporting relationships and communication channels that link the work of diverse individuals and groups. Any structure should both allocate task assignments, through a division of labour, and provide for the coordination of performance results."

(Schermerhorn, 2016) However, structure cannot be left as stable and static for too long as it can deter innovation and creativity in favour of process and procedure.

The focus on profits rather than developing comprehensive training around the airliners new navigation system resulted in the overall loss of over \$1 billion dollars. Boeing has said it's lost at least \$US1 billion over its 737 Max aircraft. "The company said this week in its first earnings report since the plane was grounded that it couldn't predict how much the ongoing crisis would affect its profits for the rest of the year Boeing has said it's lost at least \$US1 billion over its 737 Max aircraft." (Baker, 2019) Furthermore, Boeings organisational structure being focused around functionality with a profit-motivated management agenda is an example of the disadvantages to a formal and functional organisational structure. Indeed, lack of contingency in structural organisation can lead to "difficulties in pinpointing responsibilities for things like cost containment, product or service quality, timeliness and innovation in response to environmental changes" (Schermerhorn, 2016) This happened when different departments were shifting blame rather than address the problem directly, and adapt its structure to cope with the shifting external environment.

The organisational design of Boeing, should be one best suited to "arrange resources to best serve the organisation's mission and objectives." (Schermerhorn, 2016) In light of this, the company's structure must be more focused on task-driven teams and functions instead of more vertical or authority-driven structures. This will result in more collective responsibility overall, and increase worker morale and productivity in the medium to long-term and is the best fit for Boeings situational needs. Following the below recommendations will allow the company's public image to regain positive publicity and for managerial contingency planning to be more effective for future scenarios. Furthermore, care should be taken not to forgo procedure, in favour of meeting production deadlines, as the perception of Boeing going against its own core values of "Integrity, quality, safety, diversity & inclusion, trust & respect, corporate citizenship, and stakeholder success." (Boeing Mission Statement 2019 | Boeing Mission & Vision Analysis, 2019). Indeed, safety should be prioritised as the number one core value and should be a key message in the how Boeing relates to its future customers going forward.

### 2.3 Trends to improve organisation

As Boeing is a large company with many diverse teams and divisions following its matrix structure. It would benefit from a shorter chain of command to relay quality expectations of future airliners and reduce time in notifying branches of the company during vital phases of a project. “Organisations are being ‘streamlined’ by cutting unnecessary levels of management, with flatter and more horizontal structures being viewed as a competitive advantage.”

(Schermerhorn, 2016)

However, an argument for less unity of command within the organisational structure of a company also has merit, highlighting an advantage of Boeing’s adoption of the matrix structure within its key divisions. The ‘two-boss’ system of the matrix structure is a clear violation of unity of command. Whereas the classical advice is to avoid creating multiple reporting relationships, the matrix concept creates them by design. (Schermerhorn, 2016)

### 3. Conclusion

The Lion Air Flight 610, and the Ethiopian Airlines Flight 309 737 MAX crashes saw Boeing lose \$4.9 billion in compensation to airlines for lost revenue and expenses. All prior to being sued for allegedly concealing flaws the 737 model. The accusations of cost-cutting for over more than a decade, resulting in low morale and reduced engineering staffing were all factors to the crashes and have indicated sufficient issues in the companies' organisational function of management

Despite efforts focusing on its public image and quality assurance procedures since the crashes. Boeing still has a long way to go in restoring consumer confidence and public trust. Improving communication channels to better organise the company as it works towards a more centralised matrix structure. In the context of Boeings management problem, this report has made recommendations to assist with damage control and focus on more fluid, creative and responsive contingency solutions relating to the organisation of the division structures within Boeing.

In addition, following these recommendations will highlight more positive aspects of its new innovations and distance Boeing from the detriments of the 737 MAX models. Increased streamlining of the company matrix structure with further appointment of middle managers to oversee divisional projects of high priority (such as safety checks) public relations arm of the Boeing corporation is responding effectively to the product defect of the 737 MAX. As Boeing is a company with “a clear mission, core values, objectives and strategy, organising begins the process of implementation by clarifying jobs and working relationships.” (Schermerhorn, 2016) The company would benefit highly from following the recommendations in this report as they pertain directly to the management issues that led to two crashes and the deaths of 346 people and focuses on assisting Boeings transition to an uncertain external environment.

While Boeing is a reputable company with a long history of effective product delivery and functional management, care must be taken in the wake of recent events to manage the company image so further loss of profit, customers and consumer confidence does not occur. Following the below list of recommendations will be crucial in adapting Boeings organisational function within the management of its future projects.

## Recommendations

It is recommended that Boeing:

- Have a clearer division of project responsibility.
- Increase accountability within Boeing communication channels.
- Notify key stakeholders internally when technological changes occur in major airliners.
- Continuously focus the organisation around processes, not functions.
- More safety checks and training core processes and technology changes
- Make decisions with priority to safety rather than production deadlines.
- Focus on multiskilling cross-training employees and increase scope for specialized staff.

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