

August 1, 2024

Robert “Kelly” Ortberg
Chief Executive Officer

The Boeing Company
929 Long Bridge Drive
Arlington, Virginia 22202

Via email, FedEx, and Strive.com

RE: Strive Asset Management Engagement with the Boeing Company

Dear Mr. Ortberg,

We write on behalf of Strive Asset Management’s clients who are Boeing shareholders.

Congratulations on your appointment as the next CEO of one of America’s most iconic brands. You have a tremendous opportunity to turn around an aviation giant that has lost its way in recent years.

You are joining Boeing at a critical juncture in its history. While it once dominated the aviation industry, the company has recently suffered several catastrophes that jeopardize its success. The time to act is now.

To put it bluntly, **Boeing’s fixation on diversity, equity, and inclusion (DEI) has replaced engineering quality and safety as core company values**, to the detriment of fliers, the company, and shareholders alike. Any serious discussion about fixing Boeing must therefore start by steering the company towards excellence over identity politics, which we hope and expect will be your Day One priority.

An Aviation Powerhouse Has Taken A Nosedive

Since its founding more than a hundred years ago, Boeing has been a pioneer in the aviation industry and a staple of the Pacific Northwest. For decades, many travelers declared “if it ain’t Boeing, I ain’t going.”¹ The company’s bold engineering feats have

¹ Rytis Beresnevicius, “The Boeing 707 – The First Jetliner That Changed How We Travel Today,” AeroTime Hub, January 11, 2024, <https://www.aerotime.aero/articles/23039-if-it-aint-boeing-i-aint-going-boeing-707-story>.

connected millions of people around the world and driven value for shareholders. In the 1950s, the company's 707 changed air travel forever by replacing prop engines, launching the jet age.² In the 1970s, Boeing once again changed the airline industry with the "Queen of the Skies," the 747.

These days, however, the company is making headlines for all the wrong reasons. Last month, Boeing pled guilty to misleading the Federal Aviation Administration (FAA), leading up to the crashes of two 737 MAX planes that left 346 people dead, devastating families and costing the company hundreds of millions of dollars in fines.³ The plea deal follows other disturbing episodes, including:

- an improperly installed door that flew off an Alaska Airlines plane mid-flight,⁴
- multiple reports of wheels falling off aircraft on a "near-monthly" basis,⁵
- an FAA report that revealed Boeing failed 33 of 89 product audits the agency conducted, including "mechanics at a key supplier using a hotel key card and dish soap as makeshift tools to test compliance,"⁶ and
- the apparent suicide of a whistleblower who died in the middle of testifying against the company.⁷

Customers are now wary of Boeing aircraft. The travel booking website Kayak, for example, has reported that customers are now fifteen times more likely to use a tool to deselect 737 MAX flights when booking travel than they were last year.⁸ Elon Musk put

² Bill Saporito, "Boeing Made a Change to Its Corporate Culture Decades Ago. Now It's Paying the Price.", *New York Times*, January 23, 2024, <https://www.nytimes.com/2024/01/23/opinion/boeing-737max-alaska-airlines.html>.

³ Dave Michaels, Sharon Terlep, and Andrew Tangel, "Boeing Agrees to Plead Guilty in 737 MAX Criminal Case," *Wall Street Journal*, July 8, 2024, <https://www.wsj.com/business/airlines/boeing-guilty-justice-department-9dcf07d4>.

⁴ Juliana Kim, "Boeing Says It Can't Find Documents on the Door Plug That Blew off Mid-Air," *NPR*, March 9, 2024, <https://www.npr.org/2024/03/09/1237204488/boeing-door-plug-alaska-airlines-investigation>.

⁵ Hugh Cameron, "Why Are Wheels Falling off Boeing Aircraft?," *Newsweek*, July 12, 2024, <https://www.newsweek.com/boeing-aircraft-wheels-takeoff-landing-1923967>.

⁶ Allie Griffin, "FAA Audit of Boeing's 737 Production Found Mechanics Using Hotel Card and Dish Soap as Makeshift Tools: Report," *New York Post*, March 12, 2024, <https://nypost.com/2024/03/12/us-news/faa-audit-of-boeing-737-production-found-mechanics-using-hotel-card-and-dish-soap-as-makeshift-tools-report/>.

⁷ Germana Rodriguez Poleo, "\$4BILLION Is Wiped off Boeing's Value Overnight after 'Suicide' of Whistleblower - As Stock Price Plunges to Five-Month Low," *Daily Mail*, March 12, 2024, <https://www.dailymail.co.uk/news/article-13187525/Boeing-shares-3BILLION-whistleblower-suicide.html>.

⁸ Jeff Wise, "The Boeing Nosedive," *New York*, April 2, 2024, <https://nymag.com/intelligencer/article/boeing-planes-problems-stock-price-shareholders.html>.

it simply: “Do you want to fly in an airplane where they prioritized DEI hiring over your safety? That is actually happening.”⁹

Today, travelers are more likely to say, “if it’s Boeing, I ain’t going.”¹⁰

None of this benefits Boeing’s shareholders. The January door incident alone erased \$13 billion from the company’s market cap,¹¹ while more litigation surrounding the defective aircraft is almost certain to follow. The company’s stock is down by about 30% so far this year,¹² while competitor Airbus’s stock has remained steady.

Boeing Has Only Itself And Its DEI Policies To Blame

In Strive’s view, Boeing’s focus on ESG and DEI goals over safety played a key role in its current crisis, one that Boeing must now correct.

DEI has dominated Boeing’s culture in recent years. Its website touts DEI reports,¹³ and diversity goals,¹⁴ and ESG reports,¹⁵ and supplier diversity programs, and press releases about the importance of “advancing representation and inclusion” through DEI initiatives.¹⁶

⁹ Shannon Thaler, “Boeing Prioritizing Diversity and Inclusion over Flier Safety, Elon Musk Says after Near-Catastrophic Alaska Airlines Mishap,” *New York Post*, January 11, 2024, <https://nypost.com/2024/01/11/business/elon-musk-rips-boeing-they-prioritized-dei-over-safety/>.

¹⁰ Elizabeth Chuck, “Some Nervous Travelers Are Changing Their Flights to Avoid Boeing Airplanes,” *NBC News*, March 23, 2024, <https://www.nbcnews.com/news/us-news/travelers-changing-flights-avoid-boeing-airplanes-rcna144158>.

¹¹ Reuters, “Boeing Loses \$13B in Value as Shares Sink after Feds Ground Best-Selling 737 MAX Jets,” *New York Post*, January 8, 2024, <https://nypost.com/2024/01/08/business/boeing-loses-13b-in-value-as-shares-sink-after-feds-ground-best-selling-737-max-jets/>.

¹² Yahoo Finance, “The Boeing Company (BA) Stock Price, News, Quote & History,” accessed July 25, 2024, <https://finance.yahoo.com/quote/BA/>; see also Al Root, “Boeing Delivers Fewer Jets. Why the Stock Is Rising Anyway.”, *Barron’s*, May 14, 2024, <https://www.barrons.com/articles/boeing-stock-max-deliveries-9bdc4fb8>.

¹³ See Boeing, *2023 Global Equity, Diversity & Inclusion Report* (Arlington: Boeing, May 25, 2023), https://www.boeing.com/content/dam/boeing/boeingdotcom/principles/diversity-and-inclusion/assets/pdf/Boeing_GEDI_Report_FINAL.pdf.

¹⁴ Boeing, “Global Equity, Diversity & Inclusion,” accessed July 25, 2024, <https://www.boeing.com/sustainability/diversity-and-inclusion>.

¹⁵ See Boeing, *2024 Sustainability & Social Impact Report* (Arlington, Boeing, June 25, 2024), <https://www.boeing.com/content/dam/boeing/boeingdotcom/sustainability/pdf/2024-boeing-sustainability-socialImpact-report.pdf?v=0710>.

¹⁶ Boeing, “Boeing CEO Message on Equity, Diversity & Inclusion Report,” May 25, 2023, <https://boeing.mediaroom.com/news-releases-statements?item=131263>.

These initiatives include numeric goals that are indistinguishable from racial quotas. As reported in the *New York Post*, Boeing's 2023 DEI report touted the company's "goal [] to achieve diverse interview slates for at least 90% of manager and executive openings" and praised the company for exceeding the target, "with 92% of interview slates being diverse, resulting in 47% diverse hires."¹⁷ To this day, Boeing pledges to "increase the Black representation rate in the U.S. by 20%."¹⁸

"The DEI narrative is a very real thing," one Boeing insider told *City Journal*.¹⁹ As he explained:

[A]t Boeing, DEI got tied to the status game. It is the thing you embrace if you want to get ahead. It became a means to power... It is anti-excellence, because it is ill-defined, but it became part of the culture and was tied to compensation. Every HR email is: "Inclusion makes us better." This kind of politicization of HR is a real problem in all companies. If you look at the bumper stickers at the factories in Renton or Everett, it's a lot of conservative people who like building things – and conservative people do not like politics at work.²⁰

Beyond creating a potentially hostile work environment, Boeing's DEI policies have also reportedly led to the hiring of less-qualified individuals in order to fulfill representation goals. As the insider reports:

The radicalization of HR doesn't hurt tech businesses like it hurts manufacturing businesses. At Google, they're making a large profit margin and pursuing very progressive hiring policies. Because they are paying 30 percent or 40 percent more than the competition in salary, they are able to get the top 5 percent of whatever racial group they want. They can afford, in a sense, to pay the "DEI tax" and still find top people. But this can be catastrophic in lower-margin or legacy companies. You are playing musical chairs, and if you do the same things that Google is doing, you are going to end up with the bottom 20 percent of the preferred population.²¹

¹⁷ Thaler, "Boeing Prioritizing Diversity and Inclusion."

¹⁸ Boeing, "Global Equity, Diversity & Inclusion."

¹⁹ Christopher F. Rufo, "'It's an Empty Executive Suite,'" *City Journal*, April 3, 2024, <https://www.city-journal.org/article/insider-explains-what-has-gone-wrong-with-boeing>.

²⁰ Rufo, "'It's an Empty Executive Suite.'"

²¹ Rufo, "'It's an Empty Executive Suite.'"

While we disagree that tech companies are immune from the value-destroying effects of DEI policies, we share the insider's concerns that Boeing's focus on representation goals is leading to the employment of individuals who are not the most qualified candidates for their roles. Given the stakes, as well as Boeing's recent high-profile failures, the need to abandon these policies could not be more urgent.

To do so, under your leadership, Boeing must examine what is driving these policies, including its compensation packages that incentivize executives to eschew safety and innovation in favor of environmental and social goals.

In 2022, the company amended its annual incentive plan, adding two new "focus areas critical to [its] long-term business plan: climate and diversity, equity, and inclusion (DE&I)."²² These focus areas are listed alongside product safety, employee safety, and quality. Collectively, these five focus areas are listed as "operational goals" and, in that year, accounted for 25 percent of the potential reward.

In its most recent proxy statement, Boeing upped the importance of these operational goals – again expressly including climate and DEI – to account for 50 percent of the potential reward.²³ And it made another change: it replaced the term "product safety" with "stability," which it claimed measures "institutional progress in continuing to embed product safety into our culture and operations."²⁴ But a linguistic change will not remedy Boeing's safety failures, and the fact remains that Boeing considers climate and diversity just as important as stability and quality. That's shocking.

And how did the company's leaders perform on these metrics?

They received a dismal 16 out of 40 on stability and 0 out of 40 on quality, but perfect scores on climate and diversity.²⁵

Corporate leaders that can achieve bonuses based on non-financial factors such as diversity are going to prioritize those initiatives, especially in years where the company is struggling. Indeed, Boeing's CFO and COO both earned more than a million dollars

²² Boeing Co, Form DEF 14A (filed March 11, 2022), <https://www.sec.gov/Archives/edgar/data/12927/000119312522073265/d240748ddef14a.htm>, 51.

²³ Boeing Co, Form DEF 14A (filed April 5, 2024), <https://www.sec.gov/Archives/edgar/data/12927/000119312524088568/d550077ddef14a.htm>, 58.

²⁴ Boeing Co, Form DEF 14A (2024), 58.

²⁵ Boeing Co, Form DEF 14A (2024), 61.

in annual incentive pay.²⁶ And perhaps even more absurdly, Boeing's previous CEO *refused to accept* his incentive pay (while gladly accepting his \$33 million base salary),²⁷ appearing to demonstrate that even the Boeing executives that stand to benefit from these policies understand they are inappropriate and completely untethered to Boeing's actual performance.

DEI-Linked Pay Policies Hurt Performance & Create Legal Risk

Given the warped incentives these pay packages create, it's no surprise that academic research shows that they do not create financial value for the companies that adopt them.

As Strive has previously explained,²⁸ a litany of studies show that tying executive pay to ESG goals does not improve a company's financial performance. For example, a recent Stanford study examined 4,400 public companies in 21 countries to determine whether ESG-linked pay packages contributed to financial growth.²⁹ They did not: the study concluded that "the adoption of ESG pay is not positively associated with better financial performance. If anything, the results point in the opposite direction."³⁰

A second study, conducted by Professors Lucian Bebchuk and Roberto Tallarita of Harvard Law School, reached a similarly critical result.³¹ Professors Bebchuk and Tallarita examined executive compensation packages in 97 U.S. companies in the S&P 100 and concluded that "in almost all cases in which S&P 100 companies use ESG metrics, it is difficult, if not impossible, for outside observers to assess whether these metrics provide valuable incentives or merely line CEO's pockets with performance

²⁶ Boeing Co, Form DEF 14A (2024), 64. While Boeing's previous CEO ultimately declined to accept his incentive pay, this rejection demonstrates the inappropriate nature of these metrics writ large.

²⁷ Sharon Terlep and Theo Francis, "Boeing Boss Gets \$33 Million in Pay for 2023, but No Bonus," *Wall Street Journal*, Apr. 5, 2024, <https://www.wsj.com/business/airlines/boeing-boss-gets-33-million-in-pay-for-2023-but-no-bonus-2453d231>.

²⁸ See Justin Danhof, "Strive Asset Management Engagement with Southwest Airlines," letter to Robert E. Jordan and Gary C. Kelly, August 23, 2023, https://www.strive.com/docs/Final_Southwest_Letter.pdf.

²⁹ Patrick J. Kiger, "Does it pay to link executive compensation to ESG goals?", *Stanford Institute for Economic Policy Research*, July 19, 2023, <https://siepr.stanford.edu/news/does-it-pay-link-executive-compensation-esg-goals>.

³⁰ Shira Cohen, Igor Kadach, Gaizka Ormazabal, and Stefan Reichelstein, "Executive Compensation Tied to ESG Performance: International Evidence," *Journal of Accounting Research* 61, no. 3 (June 2023): 805-853, <https://doi.org/10.1111/1475-679X.12481>.

³¹ Lucian A. Bebchuk and Roberto Tallarita, "The Perils and Questionable Promise of ESG-Based Compensation," *Journal of Corporation Law* 48, no. 1 (2022): 37-75, <https://dx.doi.org/10.2139/ssrn.4048003>.

insensitive pay.” As a result, “[e]ncouraging and expanding the use of ESG-based compensation . . . gives self-interested executives a powerful tool to increase their payoffs without creating any significant incentives to deliver value to either stakeholders or shareholders.” Accordingly, the authors warn, “[t]he current use of ESG metrics . . . likely serves the interests of executives,” instead of shareholders.³²

Further, DEI-linked executive compensation policies create legal risk – now more than ever. ESG-linked executive compensation has exposed companies to lawsuits alleging unlawful race- and gender-based discrimination.³³ In *Frank v. Xerox*, for example, a federal appellate court allowed a white employee’s discrimination claim to proceed because, among other things, “managers were evaluated on how well they complied with the [diversity] objectives.”³⁴ And just this spring, a different federal appeals court upheld more than \$3 million in damages against Novant Health, including back pay and front pay, based on claims that the company discriminated against an employee for being a white male.³⁵ More litigation is on the horizon, with Missouri’s attorney general suing IBM just last month over its decision to tie executive compensation to racial representation goals.³⁶

Conversely, refusing to tie executive compensation to diversity goals can sometimes help protect a company from discrimination claims. One court dismissed a discrimination case against Walmart in part because “no part of any decisionmaker’s bonus or compensation was related to placement goals or good faith efforts goals.”³⁷ Similarly, another company was able to overcome allegations of discrimination by showing that managers’ bonuses were not tied to “quotas or specific numerical goals for hiring and promoting minorities.”³⁸ Particularly following the Supreme Court’s ruling in *Students for Fair Admission v. Harvard*, companies like Boeing must take seriously their

³² Lucian Bebchuk and Roberto Tallarita, “The Perils and Questionable Promise of ESG-Based Compensation,” *Harvard Law School Forum on Corporate Governance* (blog), March 9, 2022, <https://corpgov.law.harvard.edu/2022/03/09/the-perils-and-questionable-promise-of-esg-based-compensation/>.

³³ J.T. Ho, Mike Delikat, and Bobby Bee, “Mitigating Litigation Risk When Incorporating DEI Goals into Executive Incentive Programs,” *Harvard Law School Forum on Corporate Governance* (blog), August 27, 2023, <https://corpgov.law.harvard.edu/2023/08/27/mitigating-litigation-risk-when-incorporating-dei-goals-into-executive-incentive-programs/>.

³⁴ *Frank v. Xerox*, 347 F.3d 130 (5th Cir. 2003).

³⁵ *Duvall v. Novant Health*, 95 F.4th 778 (4th Cir. 2024).

³⁶ Missouri Attorney General’s Office, “Attorney General Bailey Files Suit against IBM for Violating the Missouri Human Rights Act,” June 20, 2024, <https://ago.mo.gov/attorney-general-bailey-files-suit-against-ibm-for-violating-the-missouri-human-rights-act/>.

³⁷ *Coppinger v. Wal-Mart Stores* 2009 WL 3163211, n. 16 (N.D. Fla. Sept. 30, 2009).

³⁸ *Bernstein v. St. Paul Companies, Inc.*, 134 F. Supp. 2d 730, 736 (D. Md. 2001).

obligation to provide race-neutral, equal opportunities for employment.³⁹ That means eliminating any and all race-based hiring, retention, and employment goals, both in general and when setting executive pay.

As Boeing's Next CEO, You Must Have The Courage To Correct Course

The task in front of Boeing is enormous. You must be fearless and prepared to correct Boeing's misplaced focus on DEI over safety from Day One.

We ask that you commit to fulfilling your fiduciary duties to the company by promising to reject social goals and focus on financial value alone.

To that end, we request that as Boeing's new CEO, you:

- Dismantle Boeing's DEI department and eliminate all related positions;
- Retire all race and gender-based targets, including all numeric requirements for interview slates, hiring quotas, and retention goals;
- Stop submitting survey data to DiversityInc., the Human Rights Campaign, and other divisive special interest groups that pressure companies to make employment decisions based on immutable characteristics rather than merit;
- Cease donations to and company support of politicized social groups, including self-described racial justice organizations;
- Eliminate the use of race or gender as a factor in selecting suppliers, terminate Boeing's supplier diversity program, and end the use of separate pathways for supplier applications open only to business owned by people of certain races or genders;
- Make all hiring and employment decisions based on merit alone;
- Make all operational and business decisions based purely on a return-on-investment analysis;
- Ensure that Boeing rewards and incentivizes executives based purely on business success rather than pursuit of non-business goals; and
- Perhaps most urgently of all, muster the courage to stand up to and reject value-destroying ESG activism.

³⁹ Students for Fair Admissions v. Harvard, 600 U.S. 181 (2023).



We look forward to engaging with you on these issues.

With best regards,

Justin Danhof
EVP, Corporate Governance
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