



# Straightened up and flying right

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By Kevin P. Casey for USA TODAY

Boeing CEO Jim McNerney got lessons in values at an early age. Ethics "was in our upbringing," a brother says.

CHICAGO — A year ago, Boeing CEO Jim McNerney had spent several months at the helm of a company reeling from federal corruption probes and the resignations of two embattled predecessors.

With McNerney's OK, then-general-counsel Doug Bain opened a PowerPoint presentation to a 2006 meeting of top Boeing (BA) executives with a tough wake-up call: the federal prisoner numbers of former Boeing CFO Michael Sears and former Air Force weapons buyer Darleen Druyun, whom Sears recruited to Boeing in exchange for favorable treatment.

"These are not ZIP codes," Bain recalls telling the crowd. "Jim came out from the very beginning saying ethics is a core value. He's saying the same

thing every day."

After 20 months as CEO, McNerney is still getting noticed most for keeping the aerospace giant, No. 26 on the *Fortune* 500, on the straight and narrow. All the while, McNerney has presided over soaring sales and a 43% rise in Boeing's share price. Chicago-based Boeing is the world's top-selling builder of passenger jets, and second-biggest defense contractor behind Lockheed Martin.

Boeing was in a steep dive when McNerney took control in July 2005.

Former CEO Phil Condit, a visionary aerospace engineer known for living large, was forced out in the wake of defense procurement scandals that landed Druyun and Sears in prison. McNerney's short-time predecessor, Harry Stonecipher, also charged by Boeing directors with restoring Boeing's integrity, was forced out after sending explicitly sexual e-mails to a Boeing executive with whom he was having an extramarital affair.

McNerney, 57, represents a stark contrast to his predecessors by several measures. He's the first Boeing CEO from outside the company since World War II. In person, he comes across as low-key and proper.

In stints at General Electric and 3M, McNerney established himself in the nation's top tier of executive talent, the place where the largest corporations look first for their executive leadership.

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"We wanted a change agent, someone who could communicate a commitment to ethics," says Boeing lead director Kenneth Duberstein, who once served as President Reagan's chief of staff. "Jim is the whole package: strong leader, visionary, motivator, team builder. He's very comfortable in his own skin."

McNerney is the product of Ivy League schools and decades of rigorous business discipline, mainly at GE, where he was a finalist to succeed former CEO Jack Welch.

"I'm a business guy," McNerney said almost apologetically in an interview at Chicago headquarters.

He confesses to being an aviation geek: "I love this industry: big technology, big customers," he says. "It's a cool thing to be around."

But he seems to possess something valuable that his predecessors lacked: an internal compass that guides him safely around corporate and political land mines.

At Boeing, whose business with the Pentagon and governments around the world relies heavily on its reputation, McNerney's gut instinct about what's right — and what looks right — seems to be working.

Boeing has scored important Pentagon and Department of Homeland Security contracts in recent months. The rehabilitation of its battered image seems well underway. His central message to Boeing's 153,000 employees: "We'd rather have you not deliver what you have promised ... than cut corners. I have to be willing to take a hit businesswise if it's the right thing to do."

Last year, following a three-year federal investigation into its defense procurement missteps, Boeing did take a hit. It agreed to pay the Air Force \$615 million to settle the investigation, the largest penalty ever for a defense contractor.

The settlement allowed Boeing to avoid criminal charges over allegations it improperly acquired internal documents from rival defense contractor Lockheed Martin and illegally hired an Air Force official who was overseeing Boeing contracts — all in a quest to win defense contracts.

Led by McNerney and a few others, Boeing decided to forgo a tax exemption on the settlement that might have saved the company \$200 million. Although some at Boeing argued for taking the deduction, McNerney and his close advisers disagreed.

Boeing announced the decision days before McNerney appeared before the Senate Armed Services Committee to answer for Boeing's lapses. The day he testified, Sen. John McCain, R-Ariz., Boeing's sharpest critic during the scandals, made a point of praising "the integrity of the new management team."

Board member Duberstein, now a Washington, D.C., consultant, says the decision to forgo the deduction was a home run.

"I think that changed the whole tenor of the conversation about Boeing," he says. "Jim is much more politically gifted than he gives himself credit for."

### Midwestern roots

McNerney grew up around business and policy. He is the eldest of five children of Shirley and Walter James McNerney of Winnetka, Ill., an affluent Chicago suburb.

The senior McNerney, who died at age 80 in the same month his son took over Boeing, was himself a businessman of national repute. He oversaw the

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integration of Blue Cross and Blue Shield and, in the 1960s, helped shape the congressional debate leading to Medicare and Medicaid, the programs that provide health insurance to poor and elderly Americans.

Of the five children, four, including Jim McNerney, earned MBAs; the fifth, Dan McNerney, is a minister and an executive of Presbyterian Frontier Fellowship, a missionary organization based in Minnesota.

At home, "management was in the water," says Dan McNerney. Their father, "a fun, gregarious Irishman," set high expectations for his kids. But he also encouraged public service and discouraged self-promotion. The family was active in the local Presbyterian church.

"Ethics wasn't something Jim had to study," he said. "It was in our upbringing."

To this day, he says, "Jim doesn't want to be the center of attention. He's cautious and private, very selective about who he opens up to."

Boeing declined USA TODAY's request to interview Jim McNerney's wife. As for outside interests, "it's either work or kids," he says.

The family has a vacation home in Bitterroot Valley, Mont. They like skiing, horseback riding and hiking.

Jim McNerney loves playing and coaching ice hockey. As in sports, McNerney is "fearless" in his professional life, Dan McNerney says. "Of all of us, he has the high-energy temperament of our dad. It's like, 'Bring it on.' "

#### Up the ranks

After a Harvard MBA and stints with Procter & Gamble and consultant McKinsey & Co., in 1982 McNerney joined GE, where Welch had just become CEO.

For the next 19 years, McNerney rose through the executive ranks, ultimately becoming one of three candidates to succeed Welch. In his book *Jack: Straight from the Gut*, Welch says GE threw test after test at candidates McNerney, Robert Nardelli and Jeffrey Immelt.

McNerney was dispatched to Asia in 1992 to become president of operations there. Shortly afterward, GE named him CEO of its lighting business. Two years later, he was CEO of GE aircraft engines.

"I sent him to China with a suitcase and not much else," Welch recalled in an interview. GE's business in China was "negligible when he went there," Welch said. McNerney's assignment was to figure out how to grow it.

McNerney succeeded, Welch said, by attracting "a lot of GE talent" on the strength of his personality. He also assembled an advisory group of talented Chinese and Southeast Asian leaders who gave GE valuable business contacts.

"He took a big risk going there, starting from scratch," Welch said.

It was in Asia, with its demand for passenger planes, that McNerney first learned about the business of jet engines. During the three years he led GE's jet engines business, it contributed more profit to the corporation than any other of its 20 business units.

On his watch, Boeing chose the GE-90 jet engine to power its popular 777 long-range jetliner, a big win for GE. In 2001, McNerney was invited to join Boeing's board of directors, the role that eventually propelled him to the top of Boeing.

It was during McNerney's corporate climb that his first marriage failed.

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Perhaps the couple's deepest hurt was the fate of their older child, Christy, now 29, who suffered neurological damage and is permanently disabled. She is institutionalized in Chicago.

McNerney met his second wife, Haity, at GE, where she was helping the company set up a fitness program. They have three children, ages 13, 15 and 18, and live in Chicago's northern suburbs, not far from where he grew up.

Despite years of standout performance at GE, McNerney was not to reach the top there. Welch in 2000 tapped Immelt, who had run GE's medical systems business, to become GE's next CEO.

Welch has never publicly explained why. McNerney calls it the biggest disappointment of his career, but the two men have remained friends.

"He was a major, major influence on my life, both personally and professionally," McNerney says. Immelt remains CEO at GE, and Nardelli recently resigned the top job at Home Depot.

Soon after Welch's decision, 3M recruited McNerney as its CEO. There, he restructured operations, cutting thousands of jobs, and reduced costs and manufacturing defects. 3M's share price rose 34% during his tenure. After he was there four years, Boeing persuaded McNerney to move from its boardroom to the CEO's office.

**Labor relations**

Earlier this month, McNerney did something unexpected. He picked up the phone, called the chief of Boeing's biggest and most outspoken labor union, and extended an olive branch.

Tom Buffenbarger, top boss of the International Association of Machinists and Aerospace Workers, was surprised. In summer 2005, right after McNerney took over as CEO, 19,000 IAM members struck Boeing for a month. The relationship had been strained since.

In December, after his first meeting with McNerney, Buffenbarger described the CEO as "an aloof kind of guy."

Now, labor-supported Democrats control both

houses of Congress. According to Buffenbarger, McNerney told him on the phone this month that Boeing and the union should mend their relationship and work together on matters of mutual interest.

"I think he's a realist and a pragmatist," Buffenbarger says today.

One mutual interest is Boeing's upcoming bid for a \$20 billion-plus Air Force contract for aerial refueling tanker jets, a project derailed years ago by Boeing's misconduct.

If Boeing wins, the project will mean many jobs building Boeing 767s for the Air Force. McNerney knows that any ethical breach now could threaten Boeing's chances, and its future.

"You have to fight it every day, whether you've had corruption or not, because you're a company of human beings," McNerney says. "The temptation to cut corners is always there."

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