

## Investment Stewardship Group

# Voting Bulletin: The Boeing Company

As part of our fiduciary duty, BlackRock’s Investment Stewardship team (BIS) advocates for sound corporate governance and business practices that are aligned with long-term sustainable financial performance. This objective underpins all our engagements and votes at company meetings.

We engage company leadership on key topics emphasizing governance practices including management of environmental and social factors that potentially have material economic, operational or reputational ramifications for the company.

We determine our engagement priorities based on our observation of market developments and emerging governance themes, and evolve them year over year as necessary. The BIS team’s key engagement priorities include:

1. Board quality
2. Environmental risks and opportunities
3. Corporate strategy and capital allocation
4. Compensation that promotes long-termism
5. Human capital management

We are committed to enhancing the transparency of our stewardship practices. Where we believe it will help to understand our voting decisions at shareholder meetings, we will publish a Voting Bulletin explaining the rationale for how we have voted on select resolutions, and (where relevant) provide information around our engagement with the issuer.

Company	<b>The Boeing Company</b>
Market	United States
Meeting Date	27 <sup>th</sup> April 2020
Key Resolutions	<p><b>Item 1c:</b> Elect Director Arthur D. Collins, Jr.</p> <p><b>Item 1d:</b> Elect Director Edmund P. Giambastiani, Jr.</p> <p><b>Item 1i:</b> Elect Director Susan C. Schwab</p> <p><b>Item 1m:</b> Elect Director Ronald A. Williams</p>
Board Recommendation	Boeing recommended shareholders support the re-election of these directors.
BlackRock Vote	We voted AGAINST the re-election of the four board members above due to the board's failure to exercise sufficient oversight of management strategy and corporate culture, which contributed to the fatal 737 MAX crashes. We voted AGAINST six shareholder proposals as the company has appropriate policies and reporting to address the issues covered by the proposals.

## Overview

In line with our approach of holding directors accountable when a company is not effectively addressing a material issue, we voted against the election of four sitting directors at The Boeing Company's (Boeing) 2020 annual meeting due to the board's failure to exercise sufficient risk oversight of management strategy and corporate culture, which contributed to two 737 MAX crashes.

BIS has had a long history of engagement with the company; over the last year, our conversations have focused on board oversight, risk mitigation, and remediation of the 737 MAX crisis. We expect continued scrutiny on the company's overall governance because of past handling of this crisis.

Please see "Rationale for BlackRock Vote" below for additional detail.

## 737 MAX Crisis

The company has faced intense criticism and scrutiny after two fatal crashes involving the 737 MAX model – the first, operated by Lion Air in October 2018; the second, operated by Ethiopian Airlines in March 2019. Following the two crashes that resulted in the deaths of 346 people, 737 MAX planes were grounded globally. The production of the MAX was suspended in January 2020, and there is no clear timeline for when these planes may resume passenger travel, or when production will restart.

The 737 MAX was announced in August 2011 and employed the Maneuvering Characteristics Augmentation System (MCAS) software. Flight manuals and training materials for the MAX did not mention the MCAS system, and many pilots were unaware of its existence until after the Lion Air crash. Additionally, a sensor malfunction light, that would potentially alert pilots of faulty readings was not operational on most planes.

Preliminary investigative findings issued by U.S. House Committee on Transportation and Infrastructure (the House Report)<sup>1</sup> on March 6, 2020 called the MCAS a "key contributing factor" to the two fatal accidents. The report also identified several central themes from the accidents, including a problematic "culture of concealment" that led Boeing to withhold crucial information from pilots, airlines, and the Federal Airline Association (FAA) and downplay safety precautions.

## Board and Management Changes

Since the crisis, changes have been made to the board and senior management, including the addition of three new board members, a new CEO, and a new independent non-executive chair of the board.

In addition to the board and management changes, a series of structural changes were made to emphasize central reporting and enhanced focus on safety and design, including a permanent safety oversight committee of the board.

## Rationale for BlackRock Vote

Based on our analysis and multi-year engagement with the company, BlackRock voted against the following agenda items:

**Item 1c: Elect Director Arthur D. Collins, Jr (AGAINST)**

**Item 1d: Elect Director Edmund P. Giambastiani, Jr. (AGAINST)**

**Item 1i: Elect Director Susan C. Schwab (AGAINST)**

**Item 1m: Elect Director Ronald A. Williams (AGAINST)**

These directors were on the board at the time of the strategic decision to amend the 737 to the 737 MAX in August 2011. While the company has created oversight structures that aim to mitigate risks that resulted in the

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<sup>1</sup> [US House Committee on Transportation and Infrastructure, the Boeing 737 MAX Aircraft](#)

737 MAX crisis, we are holding these directors accountable for board decisions that had significant adverse, material impact on the company and, consequently, its shareholders.

We believe that voting against these directors is warranted for the aforementioned reasons, and that doing so may help to promote a culture of accountability at the board level.

### **Shareholder proposals**

The company also had six shareholder proposals relating to governance provisions, disclosure, and compensation. We did not support these proposals as the company has appropriate policies and reporting to address these issues. Regarding the proposal to amend Boeing's governing documents to require an independent board chair, we believe that independent leadership is important in the boardroom and we note that the company currently has an independent chair of the board. Boeing separated the roles of CEO and chair in October 2019, with the current non-executive chair taking over the role in December 2019. We did not support the proposal to enhance lobbying disclosure as the company has established a Government Operations team that reports to the board. Additionally, the company discloses contributions to trade associations with links for ease of navigation on their website and in line with our recommended best practices and market norms.

We will continue to engage with the company and monitor developments on its business oversight, risk mitigation, remediation of the 737 MAX crisis, and corporate conduct and culture.