The Reopening

“Former Boeing CEO Jim McNerney on U.S. Reinvention”

RECORDING DATE
Wednesday, May 20, 2020

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Andrew Schwartz: You're listening to the Reopening, a podcast that asks, “How will America work through the Covid-19 pandemic? How will we innovate and how will it change our global economy?”

Andrew Schwartz: Each week we invite top business leaders to share their insights on the road to economic revival here at home and around the world.

Scott Miller: In our first ever episode, we're joined by Jim McNerney. He's the former president and chief executive of Boeing and has served with many global companies over his long career, including 3M, General Electric, and Procter & Gamble. We discuss his vision for economic recovery and what it will take to get there.

Andrew Schwartz: I'm Andrew Schwartz.

Scott Miller: And I'm Scott Miller.

Andrew Schwartz: And this is the Reopening

Andrew Schwartz: Jim McNerney it is great to have you here with us today. You are our inaugural guest and we wanted it to be that way because you have a perspective on so many industries and so many things that are going on in this Covid world. And I think, you know, you have a lot of thoughts about what's going to be happening on the horizon. Can you talk about what kind of permanent changes in work habits and in the future of work that you see on the horizon?

Jim McNerney: First of all, it's good to be talking to you and it's an important topic and I look forward to having some fun with it.

Jim McNerney: Your first question is an important one. It's obviously impossible to exactly predict but if I was going to present a theme about what might happen, based on the trauma we're going through today, it would be that there'll be an acceleration of trends that were already in place, but had not yet been adopted as aggressively, whether it's virtual teaching, whether it's telemedicine, e-commerce –look at the e-commerce volumes now versus retail, which is dead— zooming versus air travel, virtual reality...the list is pretty long. And obviously, a lot of these habit changes are happening under duress now. And the question is, how will they become incorporated with the way we work and interact with each other afterwards. And I think the short answer there for me is that the extent to which continuing with some of these habits accelerates either growth or productivity for the organizations that are embracing them, either all or in part, they will last. They will stay in place, but there’s much much more technology available to us now to respond and to incorporate into the way we work than there have been for the last few shocks, that’s the big difference as I look historically as an old guy, that’s the big difference. There are real alternatives on how we work now.
Andrew Schwartz: I want to bring my colleague Scott Miller in. Scott, jump in here, as you will.

Scott Miller: Sure. Look, you put your finger on an issue Jim, that we’re all seeing around us. We’re actually living it day to day. Technology and applications of technology used to evolve pretty slowly, adoption rates were relatively slow and all of a sudden, we slam into this period where it’s amazing acceleration. I mean people my age and older are using Zoom. I didn't know what Zoom was before about February 1st. And so these things are happening so fast. How do companies and firms deal with this and who will the winners be?

Jim McNerney: Well, you know, necessity is the mother of invention, first of all. Why do we all know how to participate in a Zoom or a Teams conference, WebEx conference, and we didn’t really know how to do it five weeks ago? Because we had to.

Scott Miller: Sure.

Jim McNerney: Telemedicine: same answer. Virtual teaching at universities: the same answer. So the situation has reduced that lag between technology’s potential and its adoption as you pointed out. And there’s always a lag and until there’s some reason that you have to use it, it doesn’t get caught up. We’re getting caught up. And it’s because we have to, and then the question is, what pieces of all that are we going to retain in our daily lives going forward? To what extent are universities, for example, going to adopt a hybrid model of teaching, where some in-person, some virtual, depending upon the part of the curriculum, depending upon the number of students that can be attracted that will pay tuition. Will students pay tuition for a hybrid environment or will they demand in-person? And so those things have to be sorted out. But we now have choices and it’s going to be fascinating.

Scott Miller: Yeah, there’s a tremendous amount to learn about what consumers actually want now versus what they wanted six months ago.

Jim McNerney: That’s where the innovation will be. The innovation on the technology that we're now using and adopting, that’s already happened. The innovation yet to happen, is how human beings incorporate it in business models, other institutional models, in ways as I mentioned earlier, that will either grow their organizations or make them dramatically more productive. That answer is in front of us, it’ll be a very exciting period of commercial innovation.

Andrew Schwartz: So Jim, you’re advising CEOs, you’re advising presidents of universities and people in government, and people in all sectors of our economy. What do you do when you talk to them about accelerating innovation?
Jim McNerney: I think we're in scramble mode right now so my speech is not too well-honed at this stage, as we're all adopting, but generally, when the subject of innovation comes up, there's two points that have to be made.

Jim McNerney: One is, culture is critically important in any organization because innovation is a messy, inherently messy process involving many tentacles spread throughout the organization. It's not the lone scientist down in a basement somewhere, railing against the world, producing something that no one's ever seen before. Innovation is a team sport and you need to have a culture that tolerates the messiness of it being made and because there's a lot of two steps forward, one step back, three steps back and the culture has to be tolerant of that process and not measure progress every six hours—you'll never innovate, because innovation is hard work.

Jim McNerney: And the other thing is that it's people based, it's leadership. I mean, you need to find the best people. The war for talent is important and if you combine a great culture, that both encourages and tolerates innovation, the sausage-making oven, and a culture that's exciting for the best people to come to, that's the mix you need. That's the mix you need.

Andrew Schwartz: Is it going to be harder to find the best people going forward, if we're continuing as a country, the trends of looking inward, especially in a Covid and post-Covid world where, people from other countries may not want to come here or we in turn may not want to have them here?

Jim McNerney: I think that's a great point. I mean, we were already in a period of nationalism and its associated cousin populism before this hit. Covid has exacerbated it because it plays on some of the same themes and the impact of that on things like immigration, cross-border educational opportunities, which our country has thrived on and we have been able to attract the best talent because of that.

Jim McNerney: I'm seeing on the ground now, many, many students from overseas, potential immigrants, not coming. It's a very uncertain environment, combining both the Covid impact, as well as the pre-existing nationalism. And so, yes, I agree, and we need to be the country, because our country represents what I said about its institution earlier, we have the best culture. And we have the place where the best people want to come. That's our strength. That's what America is. And there's risk there, as you pointed out, with the impacts and policies that we've got, of choking that off and that would be giving away maybe our most fundamental competitive advantage as a country.

Scott Miller: Yeah, you know, at a time of panic, when no one really understood Covid-19 and what its effects were, the impulse to do everything here and to hunker down, is a natural one, but your point is, we were doing this beforehand and now the themes of reshoring, making things locally rather than globally, are with us, and you've spent a lifetime working in global
business and actually doing this, and making improvements is much more
difficult than it looks.

Jim McNerney: Yes, I mean, we have spent the last 50 years basically, extending our global
reach as businesses, other institutions, multilateral organizations—WHO,
WTO—I mean, there’s been a theme, which is U.S. engagement globally and
the associated supply chains, the associated trade agreements—multilateral
often—and a lot of that is retrenching—the political winds and the impact
of Covid and—unwinding that, the extent to which that’s going to happen,
and some of it will, will not be an easy task.

Scott Miller: Yes, it’ll certainly be expensive.

Jim McNerney: Just this morning I saw an interview earlier about the company that will be
making the API for Moderna’s new RNA vaccine, and the CEO was being
interviewed and he gave an answer that would have been consistent with
the way we all thought many years ago, which is, I’ll have a couple plants in
Asia, couple plants in Europe, and one or two in the United States because
this will be a globally marketed and available drug. Now the political winds,
it’ll be interesting to hear what the administration’s reaction to the most
important drug that this country is going to produce, the most strategic
that this country will produce probably in the next couple of decades,
whether the political winds will support that kind of global deployment.
It’ll be interesting.

Scott Miller: You know he’s actually recommending something that would reduce
supply chain risk, which is to have multiple suppliers.

Jim McNerney: Yes.

Scott Miller: If you’ve got a single supplier, it doesn’t matter whether they’re here or
someplace else, you’ve got risk.

Jim McNerney: You are exactly right and the supply chain is more efficient, if you’re
serving the global market, to not ship finished products from one place in
the world, but this is a good example of that tension we were talking about
between the pre-existing nationalism, combined with the hunkering down
impact of Covid. And I think we need to make some rational choices here
and right now we’re in a bit of an irrational moment that we have to live
through and I think business people and policy people have to have to
represent clarity on the issue as we debate it.

Andrew Schwartz: You know something caught my eye along those lines. Every month, Bank
of America surveys fund managers on a variety of issues, and these are
people who control nearly 600 billion in assets and one of the results of
their survey really caught my eye. It said, the coronavirus won’t bring the
world together. Fund managers said that the most likely structural shifts
after the crisis were supply chain reshoring and a rising protectionism.
Jim McNerney: Yeah, and I think that's the dynamic we'll have to lead our way through, but it's very real. It's very real. I mean, I think, the administration, I think the political winds, I think other countries, I think the whole China situation, which is very confrontational now, there is an extremely high level of mistrust right now between the U.S. and China, and I've never seen it quite as intense as it is right now.

Jim McNerney: We've got to figure out a way to get through it. But I think that survey is dead right, we're going to have to be dealing with the impact of that and some of it's right-minded. Reshoring, it's a little analogous to the 'have an energy reserve in your country'. You do want to have an energy reserve in your country. And you do want to produce the majority of oil and natural gas that you may need in a wartime situation, in your country, and that same thought does apply to some critical drugs and other products. That does not mean though that you give up a global supply chain. But you do have buffer stocks and enough flex capacity and diversity of manufacturing so you're not caught out in one place.

Jim McNerney: You have to think it through and there'll be a new lens to look through now after this pandemic, there'll be a new lens that shades a little bit more towards keeping strategic stuff on shore and a lot of that's right-minded, doesn't mean you give up global supply chains and global leadership.

Scott Miller: That's a terrific point because look, the U.S.-China tensions are only part of the story here, some of it is there has been a sort of a long trend toward more regional supply and less long haul global supply, but also there's a reputational challenge that China faces coming out of this and just interested in your thoughts on this as a sort of a broader issue, beyond the U.S.-China tension.

Jim McNerney: Yeah, I mean, I think we're looking through the U.S. lens right now, and our political leaders are fanning the fires on China. The Republican Party, I think will use it as the driving issue in the election. It looks like it, just the way it started out. I think CSIS has come up with some research that suggests that many in the Democratic Party feel the same way. So this is an issue that will not go away, and the whole WHO issue. Are they or are they not guided, mastered by China? I mean, it's hard for me to imagine that the WHO is causing China to slow walk information, if that's what they're doing. I mean, I think China does that all on their own but it is ground zero for this bilateral tension that is being dealt with it. It's not clear to me that other countries view China as negatively as we do right now and so we have to be careful that we don't so disengage with China that we push them toward every other developed country in the world or developing country in the world, that new alliances are formed without our involvement.

Jim McNerney: I mean, I think there, we have to walk this fine line between, appropriately confronting them for some of their practices and some of their lack of follow through on trade agreements and other things, at the same time, stay engaged with them. I think there's real risk to permanently
disengaging from China. China and the U.S., there's a lot of complimentary, not only trade, but geopolitical interests and security interests where engagement is important.

Scott Miller: Yes, you're so right to point that that commercial relationship, which is deep, there's lots of U.S. investment in China, many U.S. firms are serving Chinese customers, the same way Chinese firms are serving U.S. customers, but that really underpins the relationship. There's not a treaty ally relationship or anything like that. We need the ballast of the commercial relationship to continue to prevent this thing from disintegrating entirely.


Andrew Schwartz: How do we continue in the longer term with China, with such tremendous amount of xenophobia against them? I mean, as you pointed out, you know, surveys have shown both Republicans and Democrats really have negative attitudes towards China.

Jim McNerney: Yeah.

Andrew Schwartz: It's becoming a bipartisan issue, even at the same time as it's becoming a political wedge issue.

Jim McNerney: Yes, yes. I mean, look, typically, when you look back through history, when you get to points like this in the relationship between two important countries that ultimately, if there is a, as Scott pointed out, an underlying commercial interest that makes sense, if that exists—and I think it does between the U.S. and China—there's a lot of room for comparative advantage, just to use the old economic term. We have things they need and they have things we need, each of which help our respective economies. That underlying commercial interest tends to show up eventually, after you get through some of the political debate, but I don't think that's going to show up in the case of China anytime soon. China's going to be a big issue in the election.

Jim McNerney: I think if the Democrats win the Presidency, I think that point of reconciliation may happen a little more quickly than if the Republicans win again. But ultimately, I think that kind of underlying commercial, where each make each other better, eventually shows up, but it's going to take some time because like I said, I'm old enough to have a pretty good perspective on China, and this is probably as bad as I've seen it, just in terms of the relationship.

Andrew Schwartz: What are some of the longer-term implications on different industries in the United States? So, let's take education. There's long term implications that you're looking at very closely on education with China, but with all the other things that are happening in a Covid and post-Covid world. What are the long-term implications on higher education?
Jim McNerney: Well, I think, first of all, there will probably be a shakeout. And people have argued, we have overcapacity overall in higher ed, but there'll be some financially weak organizations that will probably fall by the wayside just going through this, not able to get to the other side. That would be implication number one.

Jim McNerney: I think implication number two will be, what is the formula that blends in person, inspirational, all the things that a professor can bring, with some virtual, that parents and kids will want to pay for? At least as much as they're paying now. And so the innovation here has to be about delivering a better product, not just playing with technology.

Scott Miller: The value proposition has to get a lot better because—

Jim McNerney: —yeah, that's my point.

Scott Miller: That was a problem beforehand and you had a slow demographic problem creeping up, you know because there were fewer 18 year olds than there were 25 years ago. And so that's put a squeeze slowly but now all of a sudden they have this cataclysm and coming out the other end, it's like people, not only are parents' net worth down substantially, but they're starting to look at this expense and say, ‘what am I getting?’

Jim McNerney: Well, you know, you're exactly right. I mean, I think we were at a point in higher ed where some of the models were getting pretty stale. And some of the cultures on campuses were not perfect, okay? And where kids and faculty were more involved with political issues, identity politics than they were in learning or academic freedom. And I don't want to take sides on those issues, but it's all the signs of a stale culture. And I think this is going to be a good moment for education because you're reminded what's important when it's taken away, and a lot less of political stuff, a lot more of, 'hey, I want my professor back. Let's figure out a way to get this done properly.'

Jim McNerney: Now we're talking about the right stuff and university presidents are talking about, how do we come up with a new hybrid model that excites everybody, excites the faculty, that excites the kids, that I can still charge tuition for, that produces a better educated kid? And so in a sort of a strange way, we're back to having the right discussion because 52-card pickup was played where everything was thrown up in the air. So now, you've got to pick it up and put it back together in a new way.

Andrew Schwartz: That's fascinating. What are some other industries that you are observing that have that kind of moment where they can reinvent themselves in a much better way and a much more adaptable way?

Jim McNerney: Medicine. The practice of medicine, I don't think will be quite as disruptive, but I think the use of telemedicine, the use of remote sensors, so that you don't have to be touching somebody to assess them, just through your
phone. And now that some of that telemedicine, both on the diagnostic and therapeutic side is being paid for. Medicare, Medicaid now has regiments that will—and that was the gating factor before. I mean you had the technology, but you didn't have the reimbursement.

Scott Miller: In general, that's a problem of regulation, okay.

Jim McNerney: Yes.

Scott Miller: It's almost as if the doctors hadn't noticed that the telephone had been invented, because they couldn't get paid for using it.

Jim McNerney: Exactly.

Scott Miller: It took the regulatory change to do that.

Jim McNerney: This is a perfect example of that lag and the potential of technology and the application of it, that lag was just reduced overnight when that was the only way to practice medicine. So I think there'll be a lot of innovation there. I think things as simple as retail outlets, or obviously, the airlines. Anything consumer-facing, whether it's putting on plays or shows, sporting events. I think there's going to be a lot of innovation and I think there'll be a lot of market share shifts in cities and towns based on restaurants that innovate creatively—make consumers feel comfortable yet excited, It's going to be a very entrepreneurial time in consumer facing businesses.

Scott Miller: The first firm that figures out what consumers really want.

Jim McNerney: Yeah, right.

Andrew Schwartz: Well, you know a little something about airlines and airplanes. Let's talk about that industry for a second.

Jim McNerney: Yup, yup.

Andrew Schwartz: What's going to happen with our airline industry? I mean, most people I know, in fact, everyone I know is very hesitant to get on a plane, unless it's their own private plan.

Jim McNerney: Look, and that's understandable. The facts are, that airplanes have the most filtered air of any environment you can be in so I'm a little bit defensive on the subject, but—

Andrew Schwartz: Sure.

Jim McNerney: But the environment of going through an airport, through screening, getting on the plane, getting off the plane, is obviously a very crowded environment and there's going to have to be—and you can't have an answer that says you can only fill the plane up 40% because the numbers don't
work. These planes are built against the assumptions where you're doing better than that. That's the consumer-facing side which will be challenged.

Jim McNerney: But there's also just the virtual substitution issue. I mean, about half of air travel is vacations, consumer-type travel. The other half is business. I think the piece that may be impacted here longer term is the business piece where we're doing a little more Zoom, where there'll be kinds of meetings where we already know people, where we're in the middle of projects, where we've got a long standing relationship with either a customer or supplier, where just jumping on Zoom is just a more efficient way to do it rather than jumping on an airplane and flying to New York. And I think there could be some pressure there on the demand side, I think we'll see. I mean, the last time this happened was 9/11 and eventually came back, but we didn't have the alternatives, the technical alternatives that we have today.

Scott Miller: The business traveler is still by far the most profitable traveler for the airlines themselves, and so, what you're pointing to is a major problem.

Jim McNerney: And how much will actually be impacted is hard to know. But it's really hard to say there won't be any impact. I mean, we've all been working three or four months, were Zooming in right now as we have this interview, and it's very comfortable. Flying to DC and then flying home later tonight for a 20-minute interview, this makes a lot more sense to me.

Andrew Schwartz: Sure does. And it saves a lot of money and it saves the most valuable thing, your time.

Jim McNerney: Yeah, and that's the point. The stuff that will stay, either drives a lot more productivity or a lot more growth, it's very simple. If you can put a new way of working or behaving through one of those two lenses and it comes out with a big yes, there's a good chance that it'll stick.

Andrew Schwartz: So the future of work obviously, it is going to be different than we've seen it before. How do you see some of the immediate impacts and office culture, in the way people are managed, the way people work together –what do you see on that horizon?

Jim McNerney: Well, I think, we'll be obviously much more aware of others and our impact on others, it'll be more of a communal culture now. We're in it together and a lot of that's good, and it'll stem from the Covid situation. So I see that as a positive. More of a shared destiny, in-it-together, which anybody who leads an institution wants in their people.

Jim McNerney: Now I think some of the challenges will be, when I think more virtual work will be encouraged and allowed, office spaces, may be a little smaller. And when you have this environment where more and more people are remote, you don't see them very often, it's hard to drive a corporate culture, hard to
get everybody lined up on the same page. And as I said earlier, corporate culture is incredibly important.

**Jim McNerney:** All successful organizations have a strong culture and when you don’t see people, or you only see them on the end of a screen...since culture is built by what goes on in the dark, culture is built by informal interaction, by behind-the-water-cooler, ‘hey, come on in my office, let me talk to you for a minute’...

**Scott Miller:** Well by observation. Young people watch what the leader does and get a lot out of it. Yeah.

**Jim McNerney:** Exactly, and so, that’ll have to be managed somehow, someway, and I’m convinced it will be. People will figure it out. You’ll figure it out. More people work remotely, what that means is, we’re going to have a four-day a month rule, which is four days a month we’re all together, I don’t care where you are, you know? They’ll figure out a way to work around it.

**Andrew Schwartz:** Does it do anything to our ability to be aggressive capitalists by, you know, not being together?

**Jim McNerney:** Well that’s a great question. I personally think it does. I think it’s a negative. As I told you before, I think disruption, innovation, is a team sport. It’s hard work. People have to be in it together, encouraging one another, helping each other through rough spots in their own jobs, toward a greater goal. So I tend to think that it would be a negative. Whenever I’ve seen innovation, it’s not the lone wolf in their basement, as I said before, dreaming up something and then telling the suits they’re all wrong, and then—the problem with those kinds of people is when they get to the point of needing help to actually commercialize something, no one’s with them because they haven’t involved them. And so, that’s a negative out of the box and we’ve got to think about how to manage that.

**Andrew Schwartz:** To you, what is most promising? What is most hopeful, in your view?

**Jim McNerney:** The fact that we’re rethinking everything. Everything was getting a little stale in our political environment, corporate environments, some of our culture on campuses, I mentioned before. And the good thing about a crisis like this is that it reminds you of what’s important.

**Jim McNerney:** The politics may be the toughest thing to eradicate and bring sense to but, I think organizations, when you go through a near death experience, you get back to the fundamentals of why you’re there and why you either believe in the organization or don’t believe in the organization, or the school, or the business, and you tend to come through those situations a little bit cleansed, and so that’s what I like about this—and there’s not much to like about this. I mean, this is tough.

**Andrew Schwartz:** Right.
Jim McNerney: But that's a positive for me. And I believe that to my toes.

Andrew Schwartz: Jim McNerney, thank you so much for being with us on this inaugural podcast. You've given us an enormous amount of things to think about here and we're going to be thinking about them and we hope that in a couple months, we can have you back to talk about things as they're going forward.

Jim McNerney: Anytime Andrew, Scott. Good talking to you today.

Scott Miller: Thanks so much. See you soon.

Andrew Schwartz: Thanks for listening to the Reopening. If you liked this episode, please write us a review and subscribe wherever you find your podcast. You can also find other podcasts from the Center for Strategic and International Studies at CSIS.org/podcasts.