

## Higher Level Business & Management Internal Assessment

**Research Question: What would be the best strategy for Boeing to improve its efficiency in Asia Pacific: Improving Indonesia's security or restructuring its retirement plan?**

**Word Count: 1998**

## Acknowledgements

Thank you to my teacher, Mrs. \_\_\_\_\_ for all the guidance and help given for the past two years during the Business and Management course. Thank you Mr. \_\_\_\_\_ for the interviews despite your busy schedule.

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**Research Proposal:**

What would be the best strategy for Boeing to improve its efficiency in Asia Pacific: Improving Indonesia's security or restructuring its retirement plan?

**Rationale:**

The current problem Boeing Asia Pacific faces is that throughout the years Boeing has been faced with being inefficient with its expenses. In this internal assessment (i'll be) looking at the which strategy is best for the company Boeing to be as efficient as possible. On one hand Boeing has the opportunity to implement a security strategy program in Indonesia. On the other hand Boeing has the option to change it's retirement plan to the 401 K plan.

**Theoretical Framework:**

The analysis of this report is based on two approaches. Both financial and non financial are used to evaluate and come to a conclusion based on the research question. The key areas of the syllabus that I will be using are:

- Swot/Steeple Analysis
- Fishbone Diagram
- Force Field Analysis
- Ratio Analysis
- Decision Making Process

**Methodology:**

The procedure of the study was carried out by both primary and secondary research. The primary research was conducted with Boeing employees in Singapore

and also in India through Skype and face to face interviews. Secondary research was carried out to collect data and related to the industry and market of the company.

**Anticipated Difficulties (problems and solutions):**

There would be some problems when making appointments with the employees of Boeing due to their busy schedules. To anticipate this situation, I'm going to inform the employees a head of time and try to work around their schedule and also use technology to communicate with them.

**Action Plan:**

Date	Plan	Source of Information
Mid January	Deciding on topic	I asked my parents, however they said no... Then asked a family friend and he agreed however he couldn't have a meeting till end of february
February 25	Interview with Mr. Morris	
Mid March	Hand in Introduction	
April 6	Objective is to get information about Boeing, mainly it's strengths and weaknesses	Mr. Morris was busy on this day as he had a business trip to mumbai, so interview was set back, however messages were exchanged; giving me some information.

### **Executive Summary**

In this internal assessment it looks at the comparison in which strategy Boeing should implement to increase their efficiency in the Asia Pacific Region. The two options are restructuring their retirement plan and implementing a security strategy program in Indonesia.

The methods used to investigate the best result were swot/steeple analysis, fishbone diagram, force field analysis, ratio analysis and therefore concluded to a decision making process. Throughout the internal assessment I used both primary and secondary research.

The decision making process identifies the steps that need to be taken in order to implement the recommended plan which is to restructure their retirement plan. Also the decision making process leads to how the restructuring of the 401K plan will be implemented.

In the recommendation and conclusion, the findings show that restructuring of the 401K will allow Boeing to increase their efficiency by reducing their expenses.

**Word Count: 145**

### **Introduction:**

Boeing is a multinational corporation, which is mainly known for manufacturing and selling airplanes for both military and commercial uses. The Boeing company have been leaders and innovators in aerospace products since 1930's. Boeing's vision statement is "people working together as a global enterprise for aerospace industry leadership."

In 2014 within the Asia Pacific region Boeing wasn't as efficient as in 2013 due to the large number of competitors and legal laws against Boeing to enter into a certain market causing it to lose potential customers furthermore resulting to a high amount of expenses in its profit and loss account.

In this internal assessment I will be exploring and analysing in what way can Boeing maximise it's efficiency in Asia Pacific and reduce expenses. Boeing currently has two options; to either change their retirement plan to the 401 K plan or to impose a security strategy program in Indonesia.

The 401K plan is a retirement savings alternative which is supported by the employee, by saving a certain percentage of their pay check to put into another account for their retirement. The 401 k plan allows employees to save and invest in a piece of their pay check before taxes are taken out, and the taxes don't need to be paid until money is withdrawn from the account.

On the other hand, Boeing has the option of expanding their services in Indonesia and placing a security strategy program to ensure safety in Indonesia. Currently there is corporate problems which is impacting Boeing's corporate social image. Indonesia's economy is growing and attracting more potential customers. Indonesia needs a security strategy program implemented because Indonesia has a corrupt government and corrupt service and maintenance. If Boeing were to

implement this strategy to Indonesia they would teach others how to be more secure and maintain the aircrafts better. Boeing can therefore build a strong crew for the service and security of Boeing airplanes therefore improve the quality of the airlines using Boeing.

### **SWOT Analysis and Steeple analysis for Asia Pacific Countries (China, Indonesia, Singapore, India)**

\*refer to appendix for the swot table and steeple table

Majority of the information found was through primary research, however some secondary research which is sourced.

#### Political:

A political opportunity for Boeing is the high level of political intervention which also has an impact on the sale of aircrafts. China is possibly the biggest market for Boeing and it is expected to remain so for the next 20 years. China, through its considerable purchases of Boeing planes, has managed to gain a lot of political leverage in the U.S.

However, a political threat for Boeing is the rivalry between China and neighbouring countries such as Japan and Vietnam.

#### Economic:

The economic opportunities for Boeing Asia Pacific is the ongoing demand for aircrafts in emerging markets such a India, China, Singapore, Hong Kong, Malaysia and Indonesia. In 2013, Asia Pacific's regional GDP rose by 4.8% and the passenger traffic grew by 3.89%. (Boeing 2015.) Asia Pacific is set to become the largest air travel market in the world.

However an economic threat is the to accommodate the growing demand, the Asia Pacific region will need 13,460 new aircrafts costing \$2,020 billion, (Boeing 2015) and because there is a stiff competition in the Asia Pacific market against Airbus, Bombardier Inc. and Lockheed Martin. Furthermore another threat is "China's first big passenger plane rolled off the assembly line" (Express tribune,2015.) This could mean that Boeing may not be the leading aircraft company in the future.

*Environmental:*

The environmental threat that Boeing may face is due to the increase in Low Cost Carrier in Asia Pacific due to budget airlines, this will cause more pollutants into the environment. Boeing therefore needs to manufacture more ecologically friendly aircrafts. An environmental opportunity for Boeing is having China only have the Boeing 787 Dreamliner enter the country since China has 182 airports causing the most pollutants in the world. The Boeing 787 Dreamliner is designed to be 20% more fuel efficient than 767 it is replacing.

*Social:*

A social opportunity for Boeing is gaining more customers in the emerging markets and this can lead to a strong relationship with their customers and supplies.

A social threat for Boeing is that there is an anti-U.S. reaction in the west of Asia, which would impact Boeing's sales as West Asia has a profitable market for the aircraft and airline industry.

*Technological:*

A technological opportunity is the advance in technology. We live in a world where technology changes lives. Robots are being used to replace human error; this

could be an opportunity for Boeing to manufacture aircrafts at a faster production rate.

A technological threat however is that advanced technology could malfunction, leading to an increase in cost for repairs.

**Ethics:**

An ethical opportunity for Boeing is being a multinational company accommodating different cultures and a variety of employees to be involved with Boeing. This allows market expansion, reputation and culture diffusion.

However, an ethical threat for Boeing is some regions for instance in Indonesia there is a specific number of foreign staff that can be employed in the company, likewise in Singapore. This will impact Boeing, if the employees don't communicate properly it causes problems.

**Fishbone Diagram**

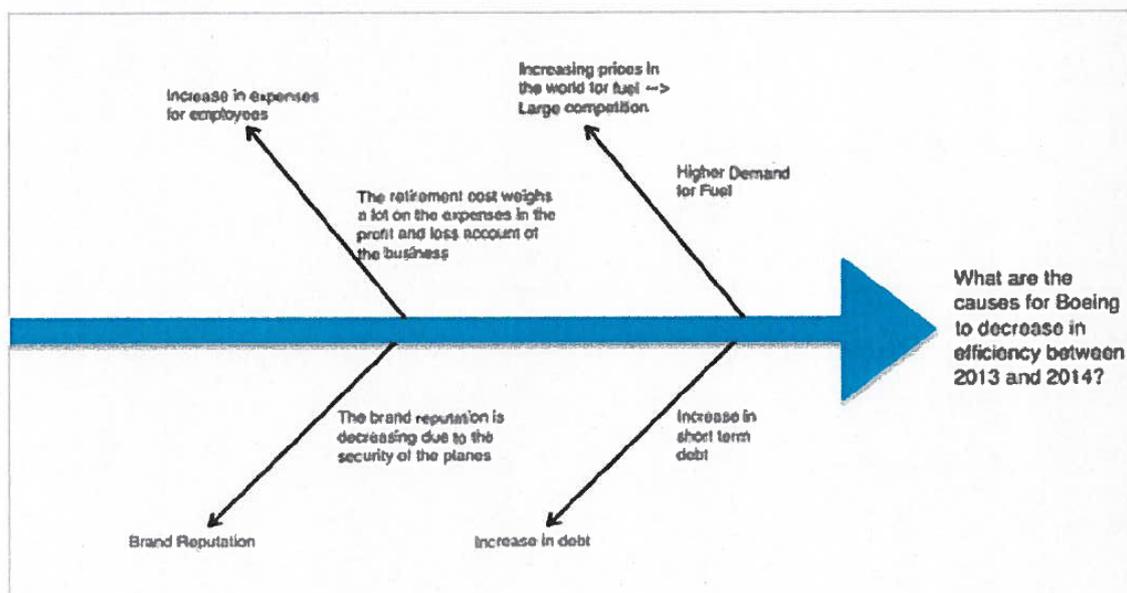
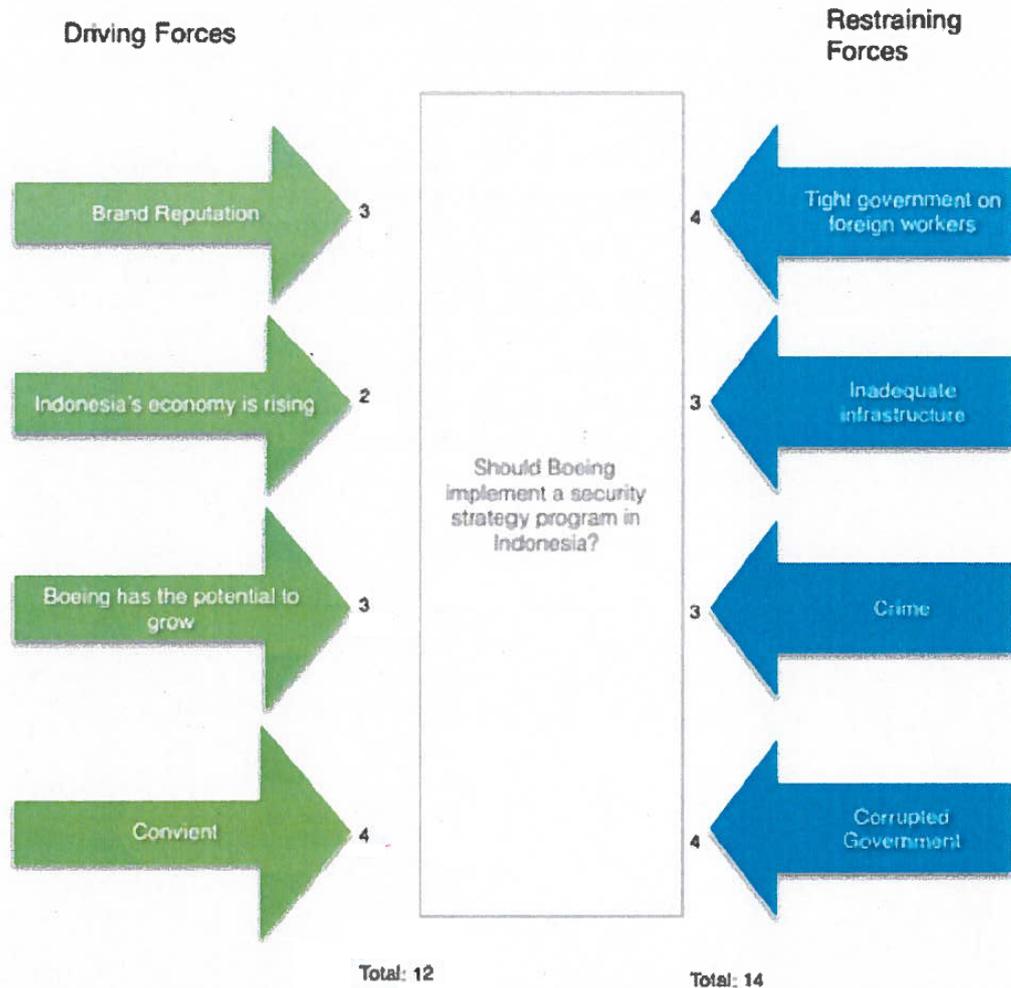


Figure 1: Source (Jenni, Salli)

( Lominé, Mwenda Muchena and Pierce, n.d.)

According to the fishbone diagram the Company Boeing has 2 options that can be controlled or improved out of the 4. In order for Boeing to improve its efficiency and potentially its profitability Boeing has two options either to improve their brand reputation or reduce their expenses on employees. Improving the brand reputation can be done by service for instance implementing the security strategy program in Indonesia since there is a growing economy and Garuda airlines, one of Indonesia's booming airlines recently purchased \$4.9billion worth of Boeing airplanes. However this security strategy may be costly because having to employ foreigners into Indonesia would mean that the company has to offer benefits, such as financing for a driver, helper, gardener, housing and schooling. On the other hand Boeing has the choice to reduce their expenses on employees by changing the retirement plans. Reducing the expenses leads Boeing being able to be more efficient. This strategy will reduce it's expenses by cutting cost in their profit and loss account as Boeing won't have to finance those retired employees as they will have the 401K plan which is taken straight from their salary.



**Force Field Analysis:**

According to the force field analysis of buying changing the retirement plan, there are more driving forces for changing the retirement plan to the 401K plan

Figure 2: Source (Jenni, Salli)  
(Hoang, 2007)

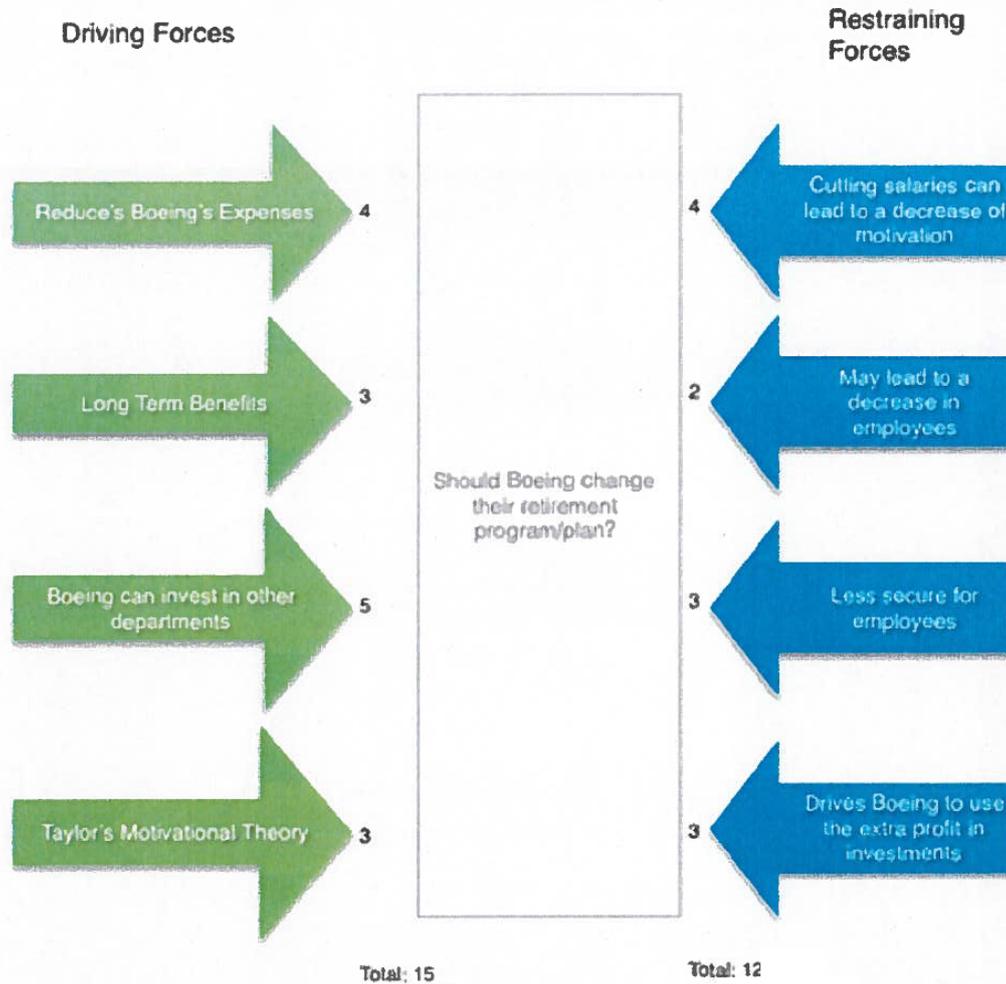


Figure 3: Source (Jenni, Salli)  
(Hoang, 2007)

than there are restraining forces. These scores came about from primary research with Mr. Morris and secondary research (Thejakartapost.com, 2015) (Practicalmoneyskills.com, 2015).

Reducing the expenses and investing in other departments is the more important reasons as there is more possibilities to increase Boeing's efficiency. However

implementing the security strategy plan in Indonesia will cause for connivence in the Asia Pacific region as Indonesia is a hub near other country. Overall the driving forces for changing the retirement plan outweigh the restraining forces. for the security strategy program, the restraining forces outweigh the driving forces.

#### Ratios Analysis:

2014	2013
<b>Profitability Ratio</b>	
GPM = $14,010,000/90,762,000 \times 100$ = 15.44%	GPM = $13,355,000/86,623,000 \times 100$ = 15.42%
NPM = $7,470,000/ 90,762,000 \times 100$ = 8.23%	NPM = $6,618,000/ 86,623,000 \times 100$ = 7.64%
<b>Efficiency Ratio</b>	
Loan Capital = $8,141,000 + 25,550,000 + 125,000$ Capital Employed = $5,061,000 + 36,180,000 + \text{loan capital}$ ROCE = $7,470,000 / 75,057,000 \times 100$ = 9.95%	Loan Capital = $8,072,000 + 18,108,00 + 122,000$ Capital employed = $5,061,000 + 32,964,000 + \text{Loan Capital}$ ROCE = $6,618,000 / 64,372,000 \times 100$ ROCE = 10.28%

Figure 4: Source (Jenni, Salli)  
(Yahoo Finances)

From the profitability ratio analysis it can be interpreted that Boeing makes a \$15.44 in 2014, and \$15.42 in 2013 in profit for every \$100 sales, which is not a huge difference between the years. Boeing should aim for higher profit returns by increasing the sales revenue and increasing the price of production in less competitive markets or markets where Boeing is succeeding in, or markets where consumers are not sensitive to price changes.

Boeing has an NPM of 8.23% for 2014 and 7.64% in 2013. Since it's low it can mean that Boeing has the challenge of controlling its overall cost. It can be

suggested that Boeing needs to reassess its expenses and see where there is unnecessary expenses and how they can be avoided.

For Boeing's efficiency ratio analysis it can be seen that for ROCE, Boeing has 9.95% in 2014 and 10.29% in 2013. Ideally a company wants to generate a higher net profit before interest and tax. Boeing has a large sum of loan capital and Boeing needs to reduce this however also ensuring that the net profit does not fall. However Boeing may need the loan capital in order to purchase materials or machinery from suppliers in order to produce the airplanes.

Overall, it can be seen that Boeing was more efficient in 2013 than in 2014 because the capital employed was significantly lower in 2013 than in 2014.

**Recommendation:****Decision Making Process:**

The decision making process is used to rationalise the best option for a company.

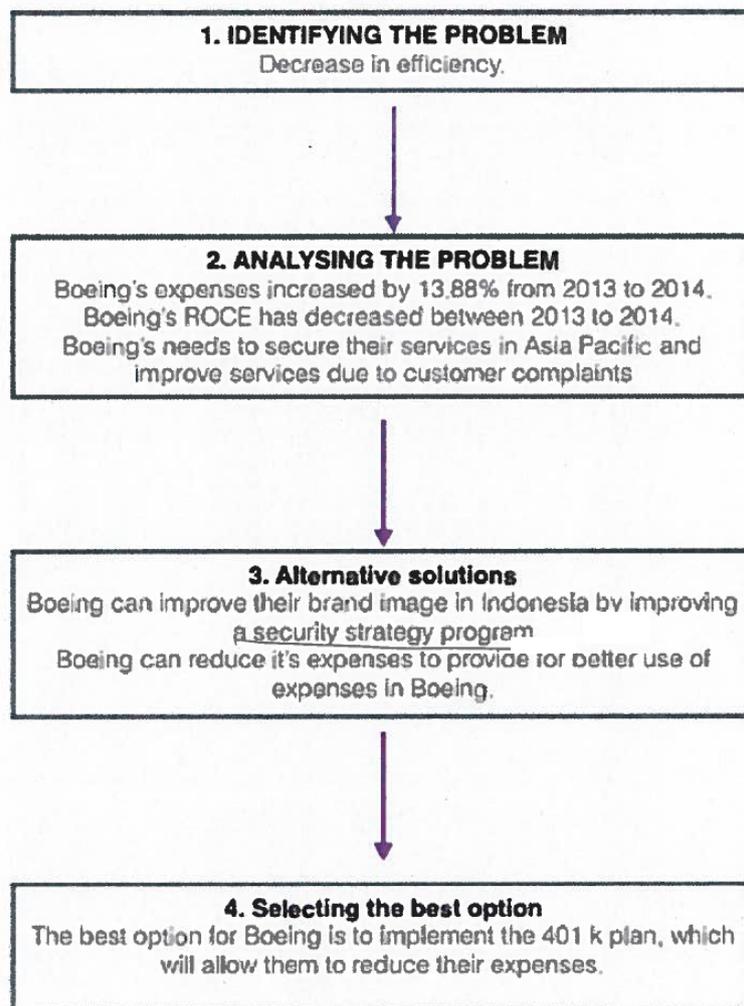
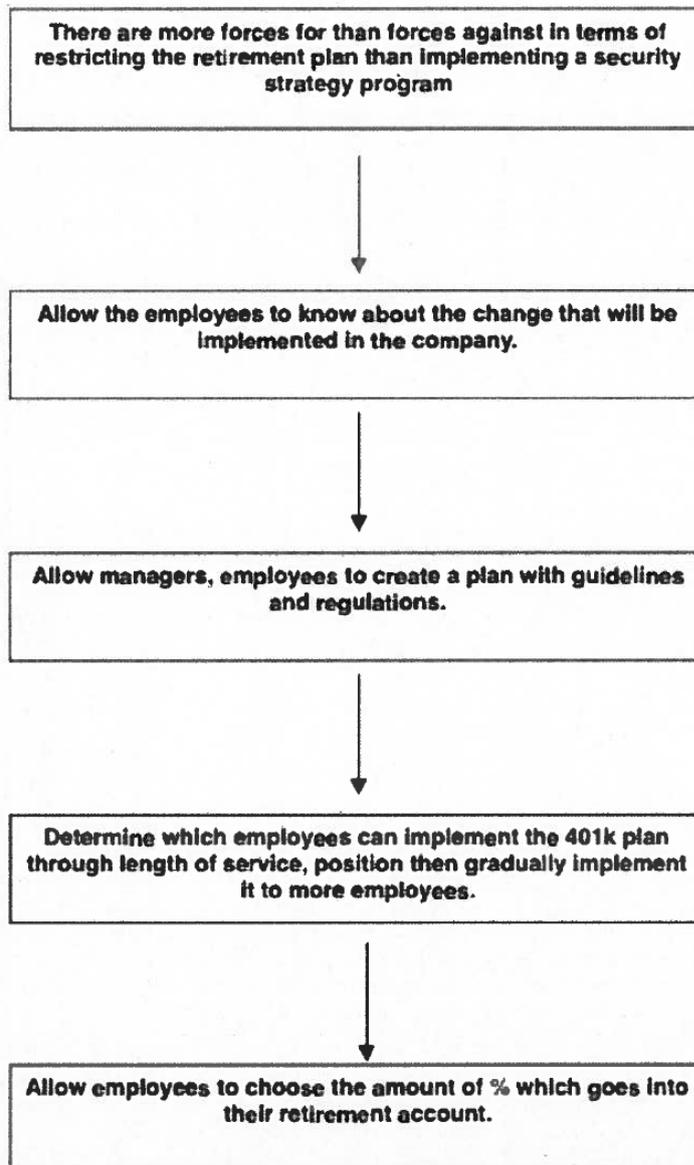


Figure 5: Source (Jenni, Salli)  
(Hoang, 2007)

Referring back to the question, I believe the best way for Boeing to be more efficient from the two options is to restructure its retirement plan. This will allow Boeing to cut its expenses and I also think that employees will be motivated. Mr. Morris likes the idea of the 401 K plan "because it gives me control over how I invest my salary and my retirement plan. The 401 k plan allows me to have all my tax deferred until i start using the money. At the time i start pulling the money out for retirement, my tax rate should be less and that way i pay less money on the capital gains." (Morris, 2015). If we relate this to Maslow's hierarchy of needs, it allows employees to reach self actualisation goals, because they're motivated to meet their own personal goals. Another employee who wanted to remain anonymous said " I think it's going to be good, as only a certain percentage of my pay goes to my retirement bank account, and if I choose I can add more to it, so for instance when I get a bonus I can place a little more by myself." Another employee also add " I like that it's automatic, I don't need to worry! I also like that now I can save more." Therefore my recommendation for Boeing Asia Pacific is to restructure their retirement plan.

**How will it be implemented?**

Boeing believes and considers that everybody in the company is a leader and can grow, which will conclude in the company growing with them. Therefore making the choice of changing the retirement plan to the 401 k plan allows employees to be their

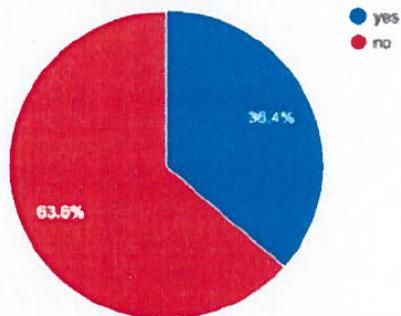
own leader, and have their esteem needs according to Maslow's hierarchy of needs.

The 401 k plan allows employees to control how they want to invest their money, Boeing allows their employees to have responsibility and Boeing lives their employees respect. The 401 k plan helps employees save.

### Survey on the 401k Plan

When asking around one of the first questions I asked was if the employee was currently saving for their retirement and these were the results.

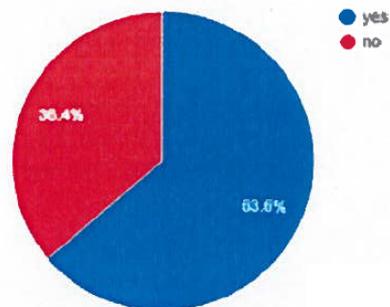
#### Are you saving currently for your retirement?



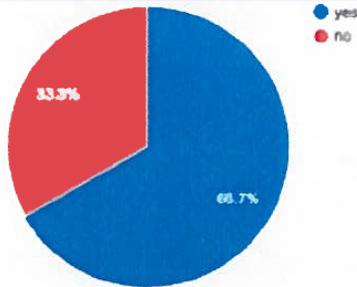
From the results it can be seen that 63.6% of employees weren't saving for their retirement plan and Boeing could see this as an opportunity for employees to save in their retirement.

Followed by that, I asked whether the 401K plan would benefit their family, and most of their responses were positive. When I asked how they answered similarly saying it would help with their housing and debt.

#### Will it benefit your family?



## Do you agree with the 401k plan?



More employees agreed with the 401k plan than disagreed with it. This would be a motivator for Boeing to implement the plan.

\*More survey results in the appendix.

### Conclusion:

In conclusion, after analysing both financial and non - financial factors, and researching both primarily and secondary it can be said that they both conclude to the same results. Both lean towards the option of restructuring the retirement plan. In my recommendation, through the decision making process it outlines the process in which the 401K plan can be implemented and benefit both the employees and the company itself. Boeing changing their retirement plan allows for change in the company therefore leading to growth in the company. This will benefit Boeing to cut it's expenses and make cost cheaper for the company. Furthermore lead to motivated employees through self actualisation from Maslow's Theory of Evolution Even though some external forces may come in-between the 401 K plan, and may impact it. I still believe that changing the plan is better than spending more expenses in security strategy program in Indonesia.

**Appendix:****Appendix 1 - SWOT TABLE.**

<b>Strengths</b> <ul style="list-style-type: none"> <li>• Global (170,000 employees in over 70 countries)</li> <li>• Good brand image</li> <li>• high quality customer service</li> </ul>	<b>Weaknesses</b> <ul style="list-style-type: none"> <li>• High taxation</li> <li>• complex supply chain</li> <li>• decreasing cash availability</li> </ul>
<b>Opportunities</b> <ul style="list-style-type: none"> <li>• Growing demand for aircrafts in emerging countries</li> <li>• Aircraft modifications and services</li> <li>• Advanced manufacturing techniques</li> </ul>	<b>Threats</b> <ul style="list-style-type: none"> <li>• Competitors</li> <li>• Increasing fuel prices</li> <li>• Increasing components price</li> </ul>

Appendix 2 STEEPLE Table

<p><b>Political:</b></p> <ul style="list-style-type: none"> <li>• Intervention</li> <li>• rivalry</li> </ul>	<p><b>Economic:</b></p> <ul style="list-style-type: none"> <li>• Asia Pacific's regional GDP rose by 4.8% and the passenger traffic grew by 3.89%.</li> <li>• need 13,460 new aircrafts costing \$2,020 billion</li> </ul>
<p><b>Environmental:</b></p> <ul style="list-style-type: none"> <li>• more pollutants into the environment unless Boeing manufacture more ecologically friendly planes</li> <li>• Boeing 787 Dreamliner</li> </ul>	<p><b>Social</b></p> <ul style="list-style-type: none"> <li>• Online experience</li> <li>• People's opinion</li> </ul>
<p><b>Technological:</b></p> <ul style="list-style-type: none"> <li>• Robots</li> </ul>	<p><b>Ethics</b></p> <ul style="list-style-type: none"> <li>• Culture</li> </ul>

Appendix 3: Interview and Survey Questions asked

- 1) What do you think would be the best way Boeing can use their revenue?
- 2) What is the 401 k Plan?
  - a) The 401K plan is a retirement savings alternative which is supported by the employee, by saving a certain percentage of their pay check to put into another account for their retirement. The 401 k plan allows employees to save and invest in a

piece of their pay check before taxes are taken out, and the taxes don't need to be paid until money is withdrawn from the account.

3) How will it benefit you?

a) It gives me control over how i invest my salary and my retirement plan. The 401 k plan allows me to have all my tax deferred until i start using the money. At the time i start pulling the money out for retirement, my tax rate should be less and that way i pay less money on the capital gains.

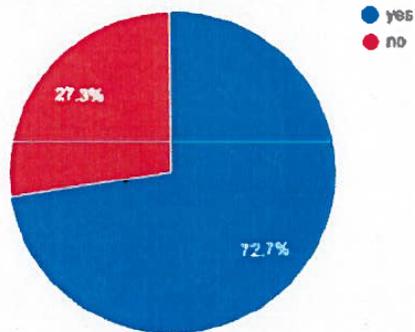
4) Can you please talk about the opportunities and threats that the company may face?

5) What are some of the driving forces for moving the project into Indonesia?

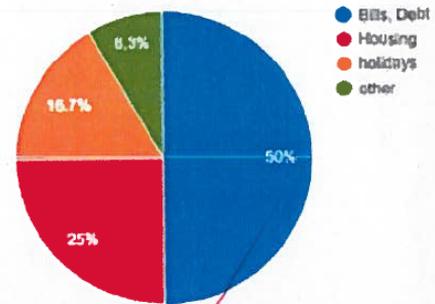
6) What are some driving forces for the retirement plan?

7) What are some restraining forces for both the retirement plan, and the security strategy program?

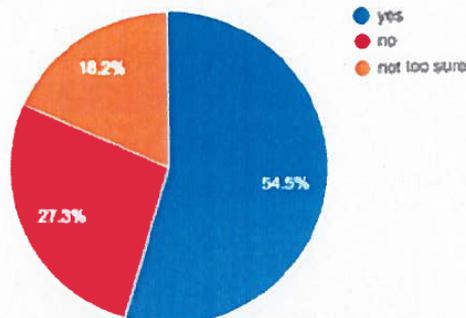
**Would you want the 401K plan?**



**What will you spend your 401k plan cash outs on?**



**Will the 401K plan help you save?**



## Appendix 4: Balance Sheet:

The Boeing Company (BA) - NYSE

**116.34** + 3.74 (3.32%) 18 Feb 05:01 SGT | After Hours: **116.00** ↓ 0.34 (0.29%) 18 Feb 08:56 SGT

## Balance Sheet

Get Balance Sheet for:  GOView: [Annual Data](#) | [Quarterly Data](#)

All numbers in the thousands

Period Ending	31 Dec, 2015	31 Dec, 2014	31 Dec, 2013
<b>Assets</b>			
<b>Current Assets</b>			
Cash And Cash Equivalents	11,302,000	11,733,000	9,088,000
Short Term Investments	750,000	1,359,000	6,170,000
Net Receivables	8,925,000	7,919,000	6,904,000
Inventory	47,257,000	46,756,000	42,912,000
Other Current Assets			
<b>Total Current Assets</b>	<b>68,234,000</b>	<b>67,767,000</b>	<b>65,074,000</b>
Long Term Investments	4,642,000	4,525,000	4,831,000
Property Plant and Equipment	12,076,000	11,007,000	10,224,000
Goodwill	5,126,000	5,119,000	5,043,000
Intangible Assets	2,657,000	2,669,000	3,052,000
Accumulated Amortisation			
Other Assets	1,408,000	1,317,000	1,500,000
Deferred Long Term Asset Charges	265,000	317,000	2,939,000
<b>Total Assets</b>	<b>94,408,000</b>	<b>92,921,000</b>	<b>92,663,000</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Accounts Payable	49,178,000	47,304,000	49,923,000
Short/Current Long Term Debt	1,234,000	929,000	1,563,000
Other Current Liabilities			
<b>Total Current Liabilities</b>	<b>50,412,000</b>	<b>48,233,000</b>	<b>51,486,000</b>
Long Term Debt	8,730,000	8,141,000	6,072,000
Other Liabilities	26,477,000	25,550,000	16,108,000
Deferred Long Term Liability Charges	2,392,000	2,207,000	
Minority Interest	62,000	125,000	122,000
Negative Goodwill			
<b>Total Liabilities</b>	<b>88,073,000</b>	<b>84,256,000</b>	<b>77,788,000</b>
<b>Stockholders' Equity</b>			
Misc Stocks Options Warrants			
Redeemable Preferred Stock			
Preferred Stock			
Common Stock	5,061,000	5,061,000	5,061,000
Retained Earnings	36,180,000	32,964,000	30,037,000
Treasury Stock	(23,296,000)	(17,671,000)	(15,937,000)
Capital Surplus	4,825,000	4,415,000	4,122,000
Other Stockholder Equity	(13,903,000)	(9,894,000)	(17,416,000)
<b>Total Stockholder Equity</b>	<b>6,685,000</b>	<b>14,875,000</b>	<b>14,875,000</b>
<b>Net Tangible Assets</b>	<b>677,000</b>	<b>6,780,000</b>	<b>(2,279,000)</b>

## Appendix 5: Income Statement:

The Boeing Company (BA) - NYSE

**116.34** + 3.74 (3.32%) 16 Feb 05:01 SGT | After Hours: **116.00** - 0.34 (-0.29%) 16 Feb 08:56 SGT

## Income Statement

Get Income Statement for:  GOView: **Annual Data** | Quarterly Data

All numbers in thousands

Period Ending	31 Dec, 2015	31 Dec, 2014	31 Dec, 2013
<b>Total Revenue</b>	<b>96,114,000</b>	<b>90,762,000</b>	<b>86,673,000</b>
<b>Cost of Revenue</b>	<b>82,088,000</b>	<b>76,752,000</b>	<b>73,268,000</b>
<b>Gross Profit</b>	<b>14,026,000</b>	<b>14,010,000</b>	<b>13,355,000</b>
<b>Operating Expenses</b>			
Research Development	3,331,000	3,047,000	3,071,000
Selling General and Administrative	3,251,000	3,480,000	3,742,000
Non-Recurring	-	-	-
Others	-	-	-
<b>Total Operating Expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Operating Income or Loss</b>	<b>7,443,000</b>	<b>7,473,000</b>	<b>6,562,000</b>
<b>Income from Continuing Operations</b>			
Total Other Income/Expenses Net	(14,000)	(13,000)	76,000
Earnings Before Interest And Taxes	7,430,000	7,470,000	6,618,000
Interest Expense	275,000	333,000	366,000
Income Before Tax	7,155,000	7,137,000	6,232,000
Income Tax Expense	1,979,000	1,691,000	1,648,000
Minority Interest	-	-	-
<b>Net Income From Continuing Ops</b>	<b>5,176,000</b>	<b>5,446,000</b>	<b>4,584,000</b>
<b>Non-recurring Events</b>			
Discontinued Operations	-	-	(1,000)
Extraordinary Items	-	-	-
Effect Of Accounting Changes	-	-	-
Other Items	-	-	-
<b>Net Income</b>	<b>5,176,000</b>	<b>5,446,000</b>	<b>4,583,000</b>
Preferred Stock And Other Adjustments	-	-	-
<b>Net Income Applicable To Common Shares</b>	<b>5,176,000</b>	<b>5,446,000</b>	<b>4,583,000</b>

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