Siemens and the battle against bribery and corruption

130918-20, Siemens at UN Leaders summit

"Sustainability is about survival," says Siemens general counsel Peter Solmssen, who argues that global cooperation is key to winning the fight

• Peter Solmssen, general counsel for Siemens, is speaking at the UN Global Compact Leaders Summit on 20 September 2013.

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The Bribery Scandal

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The scandal brought unprecedented upheaval to the 165-year-old German industrial icon. CEO Klaus Kleinfeld and board chairman Heinrich von Pierer, the CEO from 1992 to 2005, were forced out in 2007 and replaced by outsiders: Gerhard Cromme, the chairman of ThyssenKrupp, succeeded Pierer, and Merck’s president, Peter Löscher, became the CEO.

Where might businesses make the biggest impact on sustainability? Traditional answers might be fuel consumption and carbon emissions, resource efficiency and waste management. But Peter Y. Solmssen, general counsel for Siemens AG, argues for a broader view of sustainability as something that underlies every aspect of global business culture.

“Sustainability involves more than climate change and the environment,” Solmssen says. “Sustainability is about survival. It means clean water and clean air, but it also means having an economic system that works for everyone. It means having responsible citizens, both corporate and individual.”

A key part of this culture of responsibility, Solmssen claims, is a global business environment that actively fights corruption and bribery. “There’s no point in subsidizing any particular effort to restrict clean water, clean air or energy production in countries which are beset with corruption,” Solmssen says. “The money will end up in numbered bank accounts in Switzerland. It won’t go where it’s supposed to go.”

Siemens is well versed in the high cost of corruption: in 2008, following a string of high-profile bribery scandals, it agreed to a record $1.6bn legal settlement with American and European authorities. Solmssen, in fact, was part of the group Siemens CEO Peter Löscher brought in to help clean up the company’s institutional culture.

Löscher’s team quickly went to work. In an article for the Harvard Business Review, (see below (1) Löscher explained how – in a few months – the company cleaned house, replacing 80% of its top-tier executives, 70% of its second tier and 40% of its third tier.

But Siemens' culture of corruption extended far beyond the executive suite. As one German investigator later put it, "bribery was Siemens' business model". In fact, the company even had a handy accounting euphemism for its bribes: "nützliche Aufwendungen," or "useful money".

Given the corruption that permeated Siemens, it was clear that Löscher's team needed to fundamentally change the culture of the firm. The trouble was, the employees who knew the most about the company's bribery culture and methods were the same ones who were actually involved in it. Changing Siemens' way of doing business would require enlisting help from the very employees who had the most to lose.

Loscher offered his workers a deal: He promised that anyone who came forward to admit their involvement in bribery would get full amnesty. Not only wouldn't they be fired, but the company promised to help with any legal problems stemming from these admissions. On the other hand, those employees who didn't come forward, but were later found guilty of bribery, would be fired. Solmssen estimates that "about 130" employees came forward to admit their role in bribery and to explain where the money had gone.

According to Solmssen, Siemens' anti-corruption efforts have come with minimal cost. In fact, he claims, the company's bottom line has only grown. "That's the important lesson from our case," he says. "There is no tradeoff. Clean business is good business. Siemens' 2012 annual report, which shows steady year-over-year revenue growth between 2010 and 2012, bears this out.

Siemens' internal efforts notwithstanding, Solmssen is quick to point out that corruption is a global problem – and one that requires a global solution. "First you need an internal, leadership commitment to compliance," he says. "Then you can organize concerted, collective action among other companies in your markets."

Collaborating for change

But Solmssen is convinced that the groundwork for industry-wide cooperation already exists. Speaking of General Electric, where he previously worked, Solmssen notes that, although his old company and Siemens "compete vigorously all around the world," they have a deep well of shared values. "We cooperate on many fronts, such as the fight against corruption," he explains. "We cooperate on standard setting, even while we're competing commercially."

This sort of cooperation can lead to significant change, he says: "If we, the major companies and, really, anyone in private industry, link arms, we can drive corruption out of our markets. I call it the Cartel of the Good. If we cooperate, then there is no bribery."

Unsurprisingly, the fight against corruption also extends beyond the business community and into the realm of international governance. "It is principle 10 of the UN Global Compact," Solmssen notes.

Later this week, he will address global business cooperation at the UN Global Compact Leaders Summit, which he says itself is "an example of good companies combining to make their environments better".

Despite the success of Siemens' anti-bribery efforts, Solmssen is quick to note that the problem still exists. The bribery-related fallout – and court proceedings – continues.

"It's a constant struggle," he notes. "The bad guys are clever. You close one door and they try to get through another." The answer, it seems, is to make sure that the doors are closed to bribery and corruption, not only at one company, but across the globe.

(1)

The CEO of Siemens on Using a Scandal to Drive Change

by Peter Löscher in Harvard Business Review (The Magazine, November 2012)

Peter Löscher is the president and CEO of Siemens AG.

After a global bribery investigation that lasted several years, the CEO of Siemens was asked to resign in 2007, and Löscher, then the president of Merck, was brought in to replace him. There was no question that the company needed to change—and quickly.

The scandal provided the necessary sense of urgency in the company's ranks, and the new CEO set out to reorganize the top three levels of management, replacing between 40% and 80% of executives in each. To make the process transparent, each of the positions was benchmarked externally. He centralized decision making in the managing board, streamlined board membership, and created a new position for legal counsel and compliance.

Then he turned to the country organizations, whose strength was one of Siemens's secrets to success, but whose growing autonomy had created an eclectic collection of local businesses. Löscher made one person accountable for global performance in every business, grouped the country operations into one-fifth as many clusters, and established a steering group to oversee the whole.

He added an environmental portfolio to the company's strategy and refocused the top managers on customers. And he put two women on the managing board.

"If you want to change a big, complex organization like Siemens," he says, "you have to make your agenda known, and you have to communicate in simple terms."

The Idea: With Siemens reeling amid a global bribery investigation, its board hired Peter Löscher as the first outsider to become the company's top leader. Here's how he quickly moved to rebuild the organization.

Late on a Friday night in May 2007, I flew from my home in New Jersey to a secret meeting being held the next morning at a hotel near the Frankfurt Airport. For the past year I'd served as the president of Merck, but three days earlier I'd received a call from Gerhard Cromme, the chairman of Siemens. I had never worked at Siemens, and I had never met Gerhard. The company had never hired a CEO from outside since its founding, in 1847. But it was caught in a bribery scandal, and the board wanted change. I'd agreed to meet with the chairman to discuss becoming Siemens's CEO.

Gerhard and I hit it off. We talked for a couple of hours, and then we shook hands and said, "Yeah, we'll do it." We didn't discuss any contractual terms—there was immediate trust. But it was still complicated: Before Siemens could hire me, it needed an official vote by the board, and it wanted to be able to announce the decision as soon as the vote had been taken. That would leave no time for me to tell Dick Clark, my CEO at Merck. So in order to set the stage, I had to talk to Dick and resign without a firm job offer in hand and without telling him where I was going. It sounded risky, but it turned out OK. Two days later Siemens announced that I'd been hired.

I arrived at Siemens at a very difficult moment. The company faced allegations of bribery in several countries, and eventually it paid $1.6 billion in fines. But as I always remind anybody who is listening, never miss the opportunities that come from a good crisis—and we certainly didn't miss ours. The scandal created a sense of urgency without which change would have been much more difficult to achieve, regardless of who was CEO. Siemens is a very proud company with a history of innovation and success. In the absence of a catalyst like this, people would have asked themselves, "Why alter anything?"

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—The Editors

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Yet Siemens had to change. It's not so much the uniqueness of your strategy that matters nowadays—it's the strength of your execution. How can you adapt continually to the changing world we are in right now? Siemens needed to execute more rapidly, and to do that we had to take a hard look at both our organizational structure and whether we had the right people in the right jobs. Within months of my taking over, we replaced about 80% of the top level of executives, 70% of the next level down, and 40% of the level below that. I fundamentally changed how our managing board made decisions. We also worked to streamline and simplify our global operating units.

My First 100 Days

For me, Siemens had always been an icon. I worked for years at Hoechst, the German pharmaceutical and chemical company, where we watched Siemens closely. When I was at General Electric, in 2004 and 2005, we faced head-to-head competition with Siemens in medical devices. This experience actually turned out to be a big plus for me, because although I was Siemens's 12th chief executive, I was the first one who knew the company not from the inside but from the outside.

Before I arrived at the Munich headquarters, people obviously had all kinds of questions: What will he do? Will he come with his own team? Will he trust us? So for me, two things were immediately very important: getting to know the company and working quickly to change how it was organized. I wanted to use my first 100 days to focus on those goals.

Getting to know the company meant really engaging with people. So I went off traveling around the world. I developed a daily routine: First I would have breakfast with customers. Then morning sessions with either individual customers or politicians. Lunch with young high-potential Siemens employees. After lunch, business reviews with the local team and then a town hall meeting. Dinner with the top leadership team of the specific location. After dinner I would fly out and follow exactly the same routine in another city the next day.

Doing this repeatedly gives an extremely good view of what is really happening. What I learned was that Siemens employees were frustrated with bureaucracy and wanted more independent decision making. At the same time, people felt that the corruption scandal represented a failure of leadership. They were shocked and ashamed, because they are very proud to be part of Siemens.

When it came to changing the company, I worked with my immediate team. I didn't want to bring in consultants to tell us what to do. The exercise became very painful at the end. Four-fifths of the managing board members had to leave. In Germany companies have two boards: One is the supervisory board, with 50% employee representatives and 50% lenders and shareholders. At Siemens, Gerhard Cromme was and is the chairman of this board. The other is the managing board, made up of top executives, with the CEO as chairman. But at Siemens the managing board consisted of two levels as well: some "coaches" and their direct reports, who operationally led the business as part of committees within each Siemens division—miniboards.

At my first managing board meeting, we had blue binders containing all the decisions that were supposedly before us. But they had already been made, at all kinds of previous meetings. A managing board should be a decision-making body where you say, "OK, these are the two or three options. Let's have a robust discussion and then decide." Instead, the agenda was presented as preapproved decisions that the board was being asked to rubber-stamp.

So at the first meeting I said, "Before we go into all the agenda items, let's go around the room and report on how the business is doing." The reaction was "Actually, we should invite the operating units to provide the update." I said, "Just give me a flavor of what is really happening right now." But the people on the board were surprised and not really prepared to answer those questions, because they weren't deeply engaged in operations.

We got rid of this two-layer system. For me it immediately became one business, one boss. There were 12 units, and I could not afford to have all 12 operating CEOs sitting at my table. So we had to decide what businesses we were in. Initially we came out with an eightmember managing board: the heads of three operational units—energy, industry, and health care—plus the HR head, the CFO, the new head of supply chain management and sustainability, me, and a new position for legal counsel and compliance. Except for the last, all the members came from within the company. In the wake of the bribery scandal, it was very clear that legal counsel and compliance had to be at the table and had to be somebody from the outside. I was very pleased when one of my former GE colleagues, Peter Solmssen, came on board as general counsel.

Asking longtime employees to step down is never easy. I wanted to have a transparent process in which we benchmarked each of the positions externally. I asked the search firm Egon Zehnder to manage this. Many people welcomed the process, but it was highly threatening for others. Some of them showed up in my office and said, "You know, I've been running this business successfully for 20 years. I'm not willing to go through the process." My answer was very simple: "Either you go through it, or you have to decide for yourself to leave the company."

By November 2007 the executive level just below the managing board was a good mix of experienced people who were already running the divisions and people who came from below in the organization. By the end of the year the new CEOs two levels down had decided on their teams.

Then there were the country organizations. It was clear to me from the time I'd spent competing against Siemens that its strong country organizations were one secret to its success. Nevertheless, some of these organizations had become like separate companies, with the local teams operating almost independently. For example, many years ago Siemens decided to get out of the mobile-phone handset business. Some of the country organizations decided that for them it was a great business, and they'd stay in it. So we found ourselves with a very eclectic collection of local businesses, and we immediately got rid of them. I decided that every business needed one person who was accountable for global performance.

Together with my new leadership team, I also decided to group these country operations into fewer clusters. Siemens is probably the most global industrial company in the world: We operate in 190 countries, and our only real rivals in terms of reach are Coca-Cola, FIFA, and the Catholic Church. Those 190 countries were grouped into 70 clusters before I came. We decided to reorganize them into 20 clusters and create a steering group that would meet on a quarterly basis. This group consisted of the global CEOs of the divisions, the CEOs of the 20 clusters, and the managing board members. This is how we run the organization. We got rid of all the coordinating structures in between. Since then the 20 clusters have been further condensed into 14.

A Green Portfolio

These organizational changes had a simple goal: to reduce bureaucracy and make Siemens nimbler in a fast-changing world. Nowhere is the world changing faster than in emerging markets. I remember my first trip to Shanghai, around 1984. There were hardly any cars. You looked across the river to Pudong and you could see rice fields. I would never have been able to imagine how different it would become. When you see this with your own eyes, you realize that mankind radically and consistently underestimates the speed of change. We will never be able to overestimate it, I think. What we didn't have with the old Siemens structure was the ability to cope with that pace. In a slow-moving, relatively constant global environment, we could manage as we had in the past. Not anymore.

To push forward with appropriate speed after the reorganization, we needed a clear strategy. To a degree we already had one, introduced by my predecessor—the strategy of megatrends, in which we organize our businesses to take advantage of broad changes occurring in the world: globalization, for one, and the aging population, which calls for a focus on health care and diagnostics. Those were in place. I added our environmental portfolio, which we launched in July 2008.

I was at GE when it introduced its highly successful “ecomagination” strategy. So when I arrived at Siemens, I said, “Where’s our environmental portfolio?” An environmental portfolio simply showcases those of your products that are more energy-efficient and resource-efficient than the marketplace average, and with which you can make a real difference. Siemens had never tracked things this way. We hired Barbara Kux, who was the head of sustainability at Philips, as the managing board member responsible for the portfolio.

That was our first new strategic pillar. The second was that we put the company’s focus back on infrastructure. The third is that we are pioneers. Siemens has always differentiated itself through innovation, and even during the economic crisis we significantly increased our R&D spending.

Graphing Customer Orientation

I also wanted Siemens to be more customer-driven. Historically, our customers had relationships with the country organizations, but I added the management of key accounts to the managing board’s responsibilities. We have around 100 key accounts, so each member of the board is responsible for roughly a dozen companies.

In my first year, I tried to find other ways to emphasize to the entire organization that customers should be our primary focus. Once a year, our top 600 or 700 managers gather for a leadership conference in Berlin. Before my first one, in 2008, I collected the Outlook calendars for the previous year from all my division CEOs and board members. Then I mapped how much time they had spent with customers and I ranked them. There was a big debate in my inner circle over whether I should use names. Some felt we would embarrass people, but I decided to put the names on the screen anyway.

The rankings were a classic bell curve, with most people in the middle. I was number one, having spent 50% of my time with customers. I said to the people at the leadership conference, “Is this a good sign or a bad sign? In my opinion it’s very bad. The people who are running the businesses should rank higher on this measure than the CEO.”

I put the rankings up again in 2009, in 2010, and in 2011. And now things have changed. The curve has shifted. Some people have passed me, and most are near me at the top of the distribution—because everybody knows this matters and that names will be up there at the next leadership meeting. With this simple approach we have achieved a much, much stronger emphasis on customers in the top management echelons.

That’s one example of how simple things can have a big impact. Another at Siemens has been diversity. Never before had a woman been on the company’s managing board. Now we have two. I didn’t put them on the board because they were women; I put them on because I was looking for top professionals. But it had a big impact, because suddenly women knew there was no ceiling in the organization.

I also made a very simple statement to the Financial Times in 2008: Our organization is too male, too white, and too German. That caused an uproar. But if you want to change a big, complex organization like Siemens, you have to make your agenda known, and you have to communicate in simple terms. In the beginning it was "Oh, he is just talking." I'm not just talking. Now, when I make a statement, people know I will follow through.

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