Germany: Union agrees fundamental restructuring at Siemens

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The German-based electronics giant Siemens is to undertake a radical revamping of its corporate structure. The decision of the company's supervisory board was unanimous, with trade union representatives supporting the decision.

The management structures of the company, which employs some 470,000 people world-wide, are to be substantially trimmed. Instead of eight largely independent divisions, in future there will only be three: industrial, energy and medical technology. Each of the three core divisions will have its own head, who will also sit on the corporation's main board, which itself will become smaller. One entire level of management will be eradicated and virtually the entire senior management will be replaced.

"The newly focused corporate structure will continue to increase our profitability and transparency," Chief Executive Peter Löscher said of the restructuring.

IG Metall leader Berthold Huber justified his union's agreement by claiming it would maintain Siemens' position as a "leading world-wide company." He continued: "Siemens will not be broken up or cannibalized by financial investors. The decision secures the existence of important divisions. There will not be a second BenQ." This was a reference to the sale of Siemens' mobile phone division to the Taiwanese BenQ company, which declared bankruptcy after just one year, costing the jobs of approximately 3,000 former Siemens' employees.

Huber, who sits on the Siemens' supervisory board, had to admit, however, that the supervisory board meeting last Wednesday had not discussed the question of possible job cuts.

In contrast to the IG Metall leader, the daily *Süddeutsche Zeitung* regards the restructuring as a prelude to a comprehensive reorganization of the company that will cost thousands of jobs.

"What the 21 members of the company's supervisory board decided on Wednesday will for Löscher be only the starting point for far-reaching changes," the newspaper wrote on Thursday. "It would seem certain that the company will not retain weak areas such as parts of traffic technology."

All divisions must prove that they can reach their profit target of approximately 15 percent; something the *Süddeutsche Zeitung* considers unlikely, making a billion-euro sell-off possible. One example the paper cites is the company's lighting division Osram: "Despite public professions of support, the retention of Osram does not seem to be set in stone."

The newspaper also believes there will be cuts in the company's administration and marketing departments "which could lead to substantial job cuts." It continues: "Speculation about the loss of several thousand jobs has lead to widespread concern among the workforce. Löscher has certainly not excluded this."

Siemens has justified its plans to restructure the company to staff and the public by pointing to the bribery scandal that saw the corporation in the headlines in November last year.

It emerged that Siemens had paid out several hundred thousand euros in bribes to secure international orders. The company had also illegally financed its own house union, the Independent Employees Working Group (AUB), in order to limit the influence of IG Metall.

The corruption scandal has already cost Siemens €1.4 billion, including outlays for lawyers and accountants, payments of tax arrears and a fine imposed by the regional court in Munich. However, the case is far from closed and could impact the company's former communications division COM and other divisions involved in large-scale industrial projects.

Siemens is worried that it could face fines running into billions by the American Securities and Exchange Commission (SEC). Such fines would create serious difficulties for the company, hence the constant refrain about transparency and renewal. In this way, it hopes to demonstrate to the US authorities that its corrupt practices are a thing of the past.

The company has established a strict internal compliance regime to ensure the observance of laws and regulations from the top of the business down to every individual staff member. At the end of the last financial year, in September, some 470 staff were dismissed for breaching internal regulations.

The long-standing Siemens boss and chairman of the supervisory board, Heinrich von Pierer, and his successor, Klaus Kleinfeld, have since resigned. The supervisory board is now led by Gerhard Cromme, who has a background as a senior manager in the steel industry, and who brought in the Austrian national Peter Löscher in July to head the company, in close collaboration with IG Metall leader Huber and Ralf Heckmann, the deputy supervisory board and overall works council chairman. Before moving to Siemens, Löscher was at General Electric and then the pharmaceutical company Merck.

It has become clear that the bribes scandal merely supplies the pretext to downsize the company so as to ensure optimal profit maximization. For a long time, Siemens was considered a prime example of the "Rhenish model," a company run by means of a "social partnership" between management and the unions, which guaranteed its employees a job for life and provided relatively good benefits. This is now at an end. The restructuring will be carried out entirely at the expense of the workforce.

The new board chairman, Löscher, is demanding that every division return a high yield and take its lead from the profits made by American companies such as General Electric. At the beginning of November, Löscher expressed his displeasure to the *Financial Times-Deutschland* that the industrial sectors of Siemens had yielded a profit of only 8.5 percent in the first nine months of the year, while General Electric had achieved 14.7 percent. “We were not ambitious enough,” Löscher said. He wants to ensure there is an “anything is possible” culture at Siemens.

At the press conference where the company announced its annual figures, the Siemens boss outlined how he wants to bring about this enormous increase in net profits. All the company’s divisions should grow more strongly than the world market by winning market share from their competitors. At the same time, the company’s general administrative costs are to be lowered by 10 to 20 percent by 2010. This goal can be achieved only through the elimination of thousands of jobs, wage cuts and higher productivity.

Despite the high costs resulting from the corruption scandal, Siemens’ profits already increased in the last financial year by approximately twenty percent to over 4 billion euros. The fourth quarter operational results rose to €1.99 billion, an increase of 166 percent. The internal cost-cutting measures, the favourable economic situation and the sale of VDO, for which Siemens received €11.4 billion, all contributed to these results.

Löscher also profits personally from this situation, taking home millions even before he lifted a finger at Siemens. The transition from Klaus Kleinfeld to Löscher has cost Siemens over €14 million, the company admitted last week.

The 49-year-old Kleinfeld had been CEO for only two years. His contract had run its course and he had no right to a redundancy package. Nevertheless, Siemens gave him a golden handshake worth €5.75 million.

Siemens also guaranteed that Löscher would continue to receive the bonus payments he had acquired at his former employer Merck, amounting to some €8.5 million. He is to receive this on his 60th birthday.

Such is the struggle against corruption at Siemens!

The Siemens board is completely dependent on the close collaboration of the works council and the IG Metall union in achieving its ambitious goals and pushing through the associated attacks on the workforce. Chief executive Löscher, supervisory board chair Cromme, IG Metall leader Huber and overall works council chair Heckmann constitute the clique which leads the corporation, meeting regularly and agreeing on important decisions.

Heckmann’s main task is to justify to the workforce the decisions that have already been reached?a task for which he is paid handsomely. One press investigation found that he receives a yearly income of €250,000.

It is in this regard that the appearance by the new Siemens boss at the works council conference on November 22 should be seen. Löscher apologised to the 600 works council delegates, meeting for their annual conference, for the actions of the former management in funding the house union, AUB. Siemens had supported the rival organization to IG Metal with roughly €50 million provided through dubious means. This has resulted in the public prosecutor’s office launching an investigation for tax evasion, breach of trust and violation of the Works Constitution Act.

Löscher told the works council conference: “Everything I know about this matter leads me to conclude that a strange and misguided behaviour took place here. In so far as this behaviour was fed by the heart of our enterprise, I would like to expressly apologize for it to all the works council delegates and to IG Metall.”

Werner Neugebauer, IG Metall leader in Bavaria, where the conference was being held, welcomed the apology as an important signal by the company leadership. Löscher, for his part, hoped for an “atmosphere of openness and confidence” in the collaboration between management and the union delegates on the supervisory board and the works councils locally in realising the company’s profit goals.

He can be sure of the support of Huber. The IG Metall on-line publication *Siemens Dialogue* reported Huber’s appearance at the works council conference: “Berthold Huber also briefly reviewed the past months. He described the works councils as ‘an important, if not the most important stabilizing factor’ in the turbulence through which Siemens had to manoeuvre; on the AUB affair, he repeated the view of IG Metall before explaining ironically that Siemens had seen a ‘damned poor return on investment’ for the millions it had steered towards the AUB when compared to what it gained thanks to the local works councils.”

The role of the works councils and IG Metall could not be clearer. They regard themselves as co-managers who ensure that peace and order prevail in the company, enabling management to impose their plans unhindered.