German-based Siemens announces austerity programme

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In the financial year ending September 30, the Siemens concern had a turnover of €78.3 and yielded a profit of €5.2 billion. This was the second-best round of business earnings in its history. On November 8, company chairman Peter Löscher gave these figures at a press conference held this year in a hall of the Siemens gas turbine plant in Berlin and not at the usual posh hotel in Munich.

Although the turnover increased from the previous year by 7 percent, the profit decreased by 30 percent. The total value of orders also declined by €77 billion or 10 percent compared to the previous year. Germany's largest international electronics concern is thus experiencing the first effects of the deepening global recession and the austerity measures dictated by the European Union.

Löscher used the annual press conference to announce a rigorous austerity programme. By 2014, an amount of €6 billion is to be saved via brutal cuts and sales of unprofitable business sectors.

The austerity programme is to facilitate the widening of profit margins in all sectors of the company. All sectors are to achieve a return of at least 12 percent by 2014. The yield of the entire concern is currently 9.5 percent.

Löscher made no comment about the number of jobs that will be lost due to the savings and restructuring measures. Half of the savings target of €6 billion is to be achieved through purchasing rebates and the other half through the merging of factories, shifting production to cheaper locations, streamlining administrative and sales operations, and similar measures.

Research and production processes will be scrutinised to find new ways of boosting the company's efficiency and competitiveness. Furthermore, Löscher announced the closure or selling off of all business branches failing to achieve the executive board's targets.

Senior management has budgeted for costs of up to €1.5 billion involved in the downsizing and restructuring measures. It is feared the measures will entail the elimination of some 10,000 jobs.

One of the ways Löscher justified the new austerity programme was by claiming Siemens had fallen behind compared to its main rival, US General Electric. General Electric and Asea Brown Boveri made far greater profits in terms of sales.

A leading manager at General Electric prior to his appointment as head of the Siemens executive in 2007, Löscher's post at Siemens in recent years has brought him a salary approaching at least those of American CEOs—i.e., sums amounting to double-digit millions.

Löscher commented on the savings plan with the words: "The team will have to roll up its sleeves". Employees are thus confronted with a new level of job insecurity, increased work stress and constant worry about whether reorganisation or downsizing will be the first measures to be undertaken.

But there will be no worries for the shareholders. Following the news of the latest round of austerity, the company's stock rose at times by 4.8 percent. Löscher declared that, despite falling profits, shareholders will receive the same dividend as last year, which amounted to €3 per share.

The currently announced austerity programme is not the first to be implemented under Löscher's watch. Shortly after his appointment to executive board chairman, Siemens enforced in 2008 a comprehensive austerity programme that cost about 17,000 jobs (see "Further job cuts at German-based Siemens").

Work has already begun on the details of the new austerity programme. According to an article in the *Sü* *ddeutsche Zeitung* on November 9, the Siemens sectors have already "identified and begun to implement concrete measures" in critical areas. The downsizing in various locations, signalled by Siemens since 2011, has alone cost a total of 5,000 jobs.

Major savings were made by terminating work in solar technology and the field of water treatment.

Siemens had initially become involved in solar technology only three years ago. The company paid out €418 million for the Israeli company Solel, which specialised in solar thermal energy. Initially, solar technology and photovoltaics only produced a turnover of €300 million and failed to meet the management's short-term profit expectations. The associated research and production facilities at Siemens will therefore be sold.

The same fate awaits the water treatment sector that Siemens began to develop in 2004. It has a turnover of €1 billion and comprises 4,500 work places, primarily in North America.

Investment in wind farms in the North Sea is also jeopardised because problems involving power transmission connections could not be solved in the short term. Despite a long period of investment, Siemens is also phasing out its participation in the Desertec project, established to produce electricity from solar energy in Africa and deliver it to Europe.

Another field of investment incapable of meeting the management's profit objectives is the Infrastructure and Cities sector, set up only last year. It includes production relating to building equipment, environmental protection, energy conservation and the rail vehicle business. This field had a turnover of €17.6 billion last year, resulting in a profit of €1.1 billion. The proposed austerity measures here are still largely unknown.

The IG Metall engineering union and the works council were obviously privy to the savings plans and are now willingly cooperating with the executive board. General works council chairman Lothar Adler called the extent of the planned savings "surprising", but expressed general approval of the board's programme. "We expect the programme will improve the company's production processes and structures", he said, adding only that staff reduction would not be an "innovative" aspect of the plans.

A November 9 issue of the pro-trade union *Frankfurter Rundschau* newspaper claimed that the works council and IG Metall were very much in the dark about the extent of the job cuts. It quotes a union official as saying: "We'd really like to know about any". In the same article, the paper also quotes a "senior works council member" who would not be named but said: "Löscher was pressed not to mention any job reduction figures. Otherwise all hell would break loose".

In other words, the trade union and works council officials know very well what the board has planned, but they want to conceal matters from the staff and prevent them from mounting any significant protest or opposition.

Besides Siemens, other companies are planning downsizing and austerity measures because they have been severely affected by the crisis in the euro zone and expect a sharp drop in sales. According to the Federal Statistical Office, German exports into the euro zone fell by 9 percent while new orders from the euro zone declined by 10 percent in September. The reason for this has been the rollback in investment in production.