New management at German giant Siemens to introduce further cuts

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On July 31, the board of directors at Siemens voted unanimously to replace chief executive Peter Löscher with former finance director Joe Kaeser, to take effect immediately. The decision was preceded by a power struggle lasting several weeks within the management of Germany's largest technology firm and third largest industrial concern.

Siemens currently employs 370,000 workers in 190 countries with revenue in 2012 of almost €80 billion [$US 106 billion]. In the financial year 2010-11, the company earned record profits of €6.5 billion. In 2011-12, profits of €4.46 billion were still the second best result in the firm's history. In the current financial year, a profit of €4 billion is anticipated.

Last Autumn, Löscher announced a target of a 12 percent return on company stock connected to the "Siemens 2014" programme of spending cuts. But within a short period of time, he had to acknowledge that the targets for 2012-13 and 2014 would not be achieved. An operating margin of 12 percent was not attainable because of "decreased market expectations," an indication of the impact of the global economic crisis and the euro crisis.

In the wake of the publication of the latest profit warning on July 25, Siemens shares fell temporarily by more than 7 percent. When speculation about Löscher's removal became public soon afterward, the price of Siemens stock began to rise again.

Many aspects of the power struggle played out in the corporate background remain unclear. It is certain, however, that Gerhard Cromme, who as Siemens chairman brought Löscher to the firm six years ago, played a significant role in the latter's removal. Cromme had recently been compelled to give up his post as CEO at steel concern ThyssenKrupp by investors who felt he had held onto chief executive Ekkehard Schulz too long despite a deep crisis at the company.

The support of the union representatives on the board of directors was also apparently decisive. According to a report from *Der Spiegel*, IG Metall union head Berthold Huber, who is Cromme's deputy on the board, convinced Löscher he had no chance of remaining on the board.

Löscher, whose contract was recently extended by five years, can expect to receive a payoff of €9 million and a pension worth €15 million more.

Lothar Adler, the chair of the joint works council at Siemens, called for "sustainable and forward-looking business policies" in the *Süddeutsche Zeitung*, and "a change in course so that the individual is once again put at the centre."

During his six years at Siemens, Löscher cut the workforce from 475,000 to 370,000, partly through the sale of entire branches and departments of the company, and also through spending cuts. From the outset, IG Metall worked closely with Löscher and Cromme in the restructuring and profit maximisation drive.

IG Metall called off a protest against 17,200 job cuts in 2008 at short notice, making the cynical claim that Siemens had promised not to impose any redundancies. The majority of the job cuts were subsequently implemented through compensation payments and the annulment of contracts. Those workers affected were pressured to sign and give up their jobs "voluntarily."

Thanks to the job cuts and other rationalisation measures, Siemens achieved record profits in 2010-11 in spite of the global economic crisis. The concern also benefited from increased demand from China, where the government responded to the crisis with public investment programmes. The recently presented

"Siemens 2014" plan will not receive comparable support. As an export-oriented firm, Siemens is heavily dependent on the condition of the world economy, and almost all indicators point downward.

Siemens has been severely affected by declining demand in Europe, particularly in the countries suffering the most under the diktats of the European Union. In Spain, for example, Siemens sales between 2007 and 2010 fell by half.

The slowdown in China's economic growth is also having an increasing impact on German and European firms.

Löscher's removal is linked to these developments. His successor, Kaeser, is a financial expert like Löscher. But in contrast to Löscher, who joined Siemens from US pharmaceutical firm Merck and was always viewed as a fresh face, Kaeser has worked for Siemens for 33 years and knows the company inside out.

Kaeser possesses the necessary connections with IG Metall and the works council to implement even more severe cutbacks to increase profits under difficult economic conditions. This will only be possible through major attacks on jobs and working conditions.

A joint press release from the union representatives on the board tried to present the change in management as a step forward for the workforce. According to this argument, Löscher had increasingly concentrated on improving the rate of return and cutting jobs, while under Kaeser workers and the development of technology will be the main focus.

Representatives of IG Metall and the works council asserted that the slogan was once again "people before profits." They referred to the strategy "Siemens 2020," in which they call for the company to have a longer-term perspective.

This is nothing but an effort to throw dust in the workers' eyes. Siemens shareholders and large investors are demanding higher profits and will be expecting results from the new chief executive.

As Union Investment's Christoph Niesel told the *Süddeutsche Zeitung* August 1: "In our view, Siemens is too idle and too slow." He expects a stronger crackdown on costs and more sustained profitability. In Niesel's opinion, "Kaeser is the best option in the current situation."

Another analyst praised Kaeser, "We value his extensive qualifications and experience, and his role in the recent separations from NSN and Osram."

At NSN (Nokia Siemens Networks), founded jointly by Nokia and Siemens in 2007, tens of thousands of job cuts have taken place. In July, Siemens sold its 50 per cent stake for €1.7 billion to Nokia. The company's new name is Nokia Solutions Networks. According to the latest Bloomberg report, a further 8,500 job cuts are planned, and production sites in Finland, India and China will either be sold or closed.

The lighting manufacturer Osram, a long-time subsidiary of Siemens, is now an independent firm and was recently floated on the stock market. Thousands of jobs are also at risk there.

On his first day in charge at Siemens, Kaeser declared that the "Siemens 2014" programme would continue, even though the intended 12 per cent profit target would not be achieved. "We still have to become more efficient. That has not changed, and therefore we will forcefully implement the defined measures," i.e., the further elimination of jobs.

In addition, the new chief executive intends to work on a new direction for the company programme and mid-term plan, which he will outline further in the autumn. This is where Kaeser's aims meet with those of the "Siemens 2020" programme of IG Metall and the works council. The so-called "workers' representatives" are solely concerned to have a lucrative seat at the table with management and play an active role in the drive for greater productivity and the destruction of jobs.