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Business booming at Siemens, but cloud of scandal lingers

By Carter Dougherty
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FRANKFURT: Business is booming at Siemens under the new chief executive, Peter Löscher, who took over last summer in the wake of one of Europe's most prominent corporate bribery scandals.

Yet the upcoming trials of some former executives - and news this week that more may still be implicated - have kept one of the biggest European conglomerates operating under a cloud.

Late Wednesday, Siemens postponed a planned vote by shareholders at the annual meeting next week that would have released members of the executive board from liability because of bribery investigations.

That came after the U.S. law firm hired by Siemens to conduct an internal inquiry, Debevoise & Plimpton, said it had "obtained significant new information and developed very substantial leads" in its investigation.

The information, the firm said in a letter sent to Gerhard Cromme, chairman of Siemens's supervisory board, "pertains to the conduct and knowledge of a number of individuals who have served on the managing board during the past several years." The firm did not name those individuals.

Under German corporate governance law, shareholders at each annual meeting are asked to approve the "Entlastung" of top executives - a kind of confidence vote for the board and management for the past fiscal year, which ended Sept. 30.

Losing the vote does not force anyone to resign, but raises the pressure on the board not to keep them.

Institutional Shareholder Services, an influential American research firm that advises large shareholders, has been urging its clients to vote against the discharge of two former top executives: the former chief executive, Klaus Kleinfeld, and the former chairman Heinrich von Pierer, who had previously served as chief executive as well.

Neither has been accused of wrongdoing, but Institutional Shareholder Services believes they should not get shareholder votes until investigations have been completed. DSW, the main German shareholder-protection association, is also supporting that stance.

The situation has lent a Janus-faced quality to Löscher's leadership.

Löscher, a 50-year-old Austrian who last worked for the U.S. pharmaceutical company Merck, was named to the top job at Siemens last May, and took over in July. After the exits of Kleinfeld and von Pierer, only an outsider like Löscher could be trusted to force through a thorough cleanup, the board decided.

As he heads to the company's annual meeting for the first time next Friday, he will be able to trumpet a full order book and a higher dividend for shareholders. And he can boast about a stock price that, given the recent turbulence in financial markets, looks pretty good.

Yet he is also grappling with one of the most thorough reorganizations of Siemens management in its 160-year history. He must still make a new compliance system stick at all levels of the company.

"Never in the history of our company have we had to overcome such a crisis, and the repercussions will keep us busy for a long time yet," Löscher wrote in a recent letter to senior executives, according to a person who had seen the letter.

Siemens has identified 1.3 billion, or $1.9 billion, in "suspicious payments" that may have been bribes to win contracts. Those payments are now the subject of investigations on three continents, Europe, the United States and China, where the authorities are piecing together a system of secret bank accounts in preparation for fines and prosecutions.

"If you look at these numbers, you have to expect some kind of financial burden on Siemens," said Roland Pitz, an analyst at UniCredit in Munich.

"I am expecting something in the billions, but that is a number that a company like Siemens can handle."

Siemens wrapped up its fiscal year on Sept. 30 with profit of 3.9 billion on sales of 72.4 billion, 6 billion more than the previous year. New orders rose 12 percent, ensuring that its assembly lines will be busy this year as well.

At the annual meeting, Löscher will ask Siemens shareholders to approve a dividend of 1.60 per share, up from 1.45 last year.

Siemens's share price has ridden the same roller coaster as most other equities over the past six months; it fell 2.29, or 2.4 percent, to close at 92.61 on Thursday.

Pitz said that the financial burdens on Siemens from the scandals would shave at most 2 or 3 off its stock price.

A thriving business has given Löscher time to turn his attention to the reorganization, and by all accounts he gets high marks for delivering a consistent message that corruption must end.

Michael Hershman, a co-founder of the anti-bribery watchdog Transparency International, is helping Siemens design a legal compliance system to avoid such scandals in the future.

Löscher is pursuing "a zero-tolerance policy that is not just words," Hershman said. "He seems committed to rooting out the problems and getting the company past it."

Löscher's boldest stroke was to divide all Siemens businesses - which run the gamut from power turbines to light bulbs to medical equipment - into three broad divisions, covering industry, energy and health care. Löscher also put the leaders of those three sectors onto the central managing board in Munich.

That change put an end to a system in which a leader of a major business line, like power generation, had his own managing board and reported to Munich without being based there. Siemens officials believe the old way allowed corruption to metastasize, and inhibited accountability.

"To hold people responsible for an organization as decentralized as Siemens was, you needed to clarify the lines of reporting," Hershman said.

Meanwhile, prosecutors in Siemens's hometown are still at work.

In October, Siemens agreed to a 201 million fine over bribery activities in its communications equipment business, which it either sold off or folded into joint ventures over the last two years. That ends the legal jeopardy that the company faces in Munich, but the prosecution of former Siemens executives there will create a potential outlet for new revelations.

Reinhard Siekaczek, a veteran of Siemens's telecommunications business, has already been indicted and will go on trial in the spring, and the authorities say more action is on the way.

"This will not be the only indictment that we make against former Siemens employees," said Anton Winkler, a spokesman for the Munich prosecutor. "We are preparing others."

A separate inquiry is also running in Nuremberg, north of Munich, where prosecutors are investigating possible bribes paid to employee representatives to support management in labor disputes. Both the U.S. Justice Department and the Securities and Exchange Commission have begun investigations of Siemens, but neither has announced any results.

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