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Siemens's Prosperity Doesn't Obscure Bribery Scandal

By CARTER DOUGHERTY

FRANKFURT — Business is booming at Siemens under the new chief executive, Peter Löscher, who took over last summer in the wake of a corporate bribery scandal.

Yet the coming trials of some former executives, and reports that more may be implicated, have kept Siemens, one of the largest European conglomerates, operating under a cloud.

Last week, Siemens postponed a planned vote by shareholders at the annual meeting on Friday that would have freed members of the executive board of liability as a result of bribery investigations.

That came after the law firm of Debevoise & Plimpton, which was hired by Siemens to conduct an inquiry, said it had "obtained significant new information and developed very substantial leads."

The information, the firm said in a letter sent to Gerhard Cromme, chairman of the company'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." It did not name the individuals.

Under German corporate governance, shareholders at each annual meeting are asked to approve top executives — a kind of confidence vote for the board and management for the previous fiscal year, which ended on Sept. 30. Losing the vote does not force anyone to resign, but increases pressure not to keep them.

Institutional Shareholder Services, an American firm that advises large shareholders, has been urging its clients to vote against the release 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 — from liability in any bribery inquiry.

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

Mr. Löscher, 50, an Austrian who last worked for Merck & Company, took over in July. After the departures of Mr. Kleinfeld and Mr. von Pierer, the board decided that only an outsider could be trusted to achieve a thorough cleanup.

As Mr. Löscher heads to the annual meeting on Friday, he can talk of a full order book and a higher dividend.

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 huge company.

In its investigation, Siemens has identified "suspicious payments" totaling 1.3 billion euros ($1.88 billion) that may have been used as bribes to win contracts. The payments are being investigated in Europe, the United States and China, with authorities piecing together 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."

For the year ended Sept. 30, Siemens had a profit of 3.9 billion euros on sales of 72.4 billion euros, 6 billion euros more than the previous year. New orders rose 12 percent.

At the annual meeting, Siemens shareholders will be asked to approve a dividend of 1.60 euros a share (now $2.31), up from 1.45 euros last year.

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

Michael J. Hershman, a founder of the bribery watchdog group Transparency International, is helping Siemens develop a legal compliance system.

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

The boldest stroke was to divide all Siemens businesses — a group as diverse as power turbines, light bulbs and medical equipment — into three broad divisions covering industry, energy and health care. Mr. Löscher also put the leaders of those three sectors onto the central managing board in Munich.

That puts an end to a system in which a leader of a major business, like power generating, had his own managing board and reported to Munich headquarters without being based there. Siemens officials say the old way allowed corruption to spread and inhibited accountability.

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

German prosecutors are still at work.

In October, Siemens agreed to a 201 million euro fine in connection with bribery activities in its communications equipment business, which it either sold off or folded into joint ventures over the last two years.

One executive, Reinhard Siekaczek, has been indicted and will go on trial in the spring.

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

A separate inquiry is also under way in Nuremberg. In the United States, the Justice Department and the Securities and Exchange Commission have begun investigations.