For Siemens, Move Into U.S. Causes Waves Back Home

Fast-Growing Operation Puts Pressure For Change on Rigid German Structure

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Shortly after the Iraq war began in March, senior executives for **Siemens** AG gathered for a trans-Atlantic conference call to craft a response to the crisis.

For months, leaders at the German industrial giant, Europe's largest engineering company, had agonized about the issue. They worried any public stance risked antagonizing either Germans at home, where antiwar sentiment was strong, or Americans abroad, among whom support for war was building. Such cultural conflicts have roiled the 156-year-old company in recent years, since the U.S. has become its largest and most important market.


Klaus Kleinfeld

But with war under way, Klaus Kleinfeld, the German-born head of the company's U.S. business, wanted a resolution. Seventy Siemens employees in the U.S. were on active duty, and the son of one Atlanta-based employee already had been killed. Without a public statement, Mr. Kleinfeld warned, Siemens could alienate employees, customers and U.S. leaders.
The Munich-based participants on the call, including Eberhard Posner, the company's powerful head of communications, strongly disagreed. They insisted a statement would cause similar damage in Germany.

"They didn't understand why this was necessary in the U.S.," says Siemens's chief U.S. spokesman, Bud Grebey, who participated in the call. "It was completely a cultural issue."
The two sides finally hammered out a hedged compromise statement worthy of a diplomatic communique, noting that it was not Siemens's policy to "take positions regarding political and/or military conflicts." But an addendum to be provided to U.S. journalists "when appropriate" said U.S. employees expressed "concern for the men and women of the U.S. Armed Forces and their families during this difficult period."

Bridging the trans-Atlantic divide is an increasingly urgent task for Siemens, which comprises 13 divisions that make everything from light bulbs and mobile phones to X-ray equipment and trains. After a decade of acquisitions and expansion, the company now gets 24% of its $93 billion in annual sales from the U.S. Germany accounts for just 22%, down from 30% five years ago.
Siemens also employs 70,000 workers here, about 17% of its total and more than homegrown giants such as Microsoft Corp. and Intel Corp. Its American Depositary Receipts have traded on the New York Stock Exchange since 2001. Says Kenneth C. Cornelius, a senior U.S. executive and 25-year Siemens veteran: "We've gone from being an outpost to being the strategy."
Yet cultural clashes threaten Siemens's U.S. prospects. Like many German companies, it has traditionally run many U.S. operations from Germany, under a cadre of German-born executives. The top-down management style leaves little room for local innovation. It has also often tied local managers' hands and kept the company's many units from collaborating, current and former Siemens executives say. Indeed, Siemens has failed to fully integrate all the purchases it made during its $8 billion U.S. buying spree in the 1990s. The company has lost some U.S. managers who grew impatient with meddling from Munich

The challenge was brought home in 2001, when, after several years of bulking up, the U.S. operations posted a loss of $553 million, while Siemens as a whole recorded a $1.8 billion profit. Of 92 separate U.S. businesses, 24 were in the red. The company was hurt by the bursting of the Internet and telecom bubbles, in which it had some big investments.

Since Mr. Kleinfeld was tapped that year to lead a turnaround, the company has done better, with its recent performance beating analysts' expectations. In 2002, Siemens Corp., the name for the U.S. operations, reported profit of $810 million. Siemens's American depositary receipts, traded on the New York Stock Exchange, are up 48% in the last 12 months, trading at $63.01, down 74 cents, in 4 p.m. composite trading Friday. Still, the shares are off 3.8% since Jan. 1, 2002, and Siemens's U.S. operations have lost some value due to a weak dollar and the end of a boom era in power-generating turbines that has drastically cut demand in that industry.

Siemens is just one of a parade of big German companies that have struggled to adapt a centralized, deliberate German corporate structure to the more flexible and faster-moving business environment in the U.S. In recent years DaimlerChrysler AG, SAP AG, Deutsche Bank AG and Bertelsmann AG similarly have poured resources into the U.S., the world's largest market, in search of new growth. But even as U.S. companies have slashed operations and grown more accustomed to making quick decisions, German companies still must go through several layers of approval to make a major corporate decision, such as an acquisition. Final authority often rests in the hands of Germany-based executives who lack first-hand knowledge of local markets. At Siemens's Munich headquarters, much of the discussion and many written communications are still in German, though many of its executives speak English and other languages.

Many day-to-day issues are decided not by an individual but a management board, usually composed of the heads of the main divisions with chief executive serving as chairman. The Siemens management board has 13 members. Once it makes a decision, the vote is binding and further dissent is neither encouraged nor welcome. A separate body made up of shareholder and employee representatives, the supervisory board, has to approve major decisions.

Deep Roots

The hierarchical management structure has deep roots in Germany. It stems from the country's 19th-century bureaucratic tradition and is heavily influenced by the Handelsgesetzbuch, a corporate code based in Prussian law. Within the European Union, only German, Austrian and Dutch companies are required by law to have this two-tier structure.

The end result is a deliberateness and caution that, depending on one's view, is described as efficient and attentive to detail or enigmatic and slow. "Germans aren't used to the fast pace of business in the U.S. or the intensity of the competition," says Roland Berger, Germany's pre-eminent business consultant and a confidant to many of the country's political and business leaders. "Germans have a tendency to assume that because they speak English and have enjoyed American hospitality on vacation that they understand the country. In reality, America is very different from what they expect, and much more brutal."

Founded in the 1840s, Siemens has been able to adapt through Germany's 19th-century industrialization, two world wars, rebuilding and reunification. It has a presence in 190 countries and has been active in the U.S. since 1854, when it installed telegraph equipment along the Pennsylvania Railroad line.

Historically, the U.S. chief executive was given very limited autonomy. The job was to provide a public face and manage central administrative functions such as financial administration, while major decisions in each business were made back home. It generally went to Siemens executives in the twilight of their careers, who coveted it mainly for the chance to live in New York, where the U.S. business is based.

As a result, Siemens never developed a coherent strategy for the U.S. market. While in many countries Siemens's operations are centralized, in the U.S. the different units had long been scattered across the country, without a central entity coordinating joint efforts, a situation that worsened after the company's buying spree. With different units rarely interacting, it could never take advantage of its breadth by offering customers more services.

"The company was managed by engineers who thought only of their individual chimney," says Thomas N. McCausland, who joined Siemens in 1986 and is chief executive of Siemens Medical Solutions in the U.S.

Mr. Kleinfeld, 45 years old, was deliberately chosen to provide a new direction. His predecessor, Gerhard Schulmeyer, who ran the U.S. operations from 1999 until he retired at the end of 2002, says he and Siemens CEO Heinrich von Pierer, who has headed the company since 1992, agreed that the company needed a more aggressive approach in the U.S.

Mr. Kleinfeld had never headed any unit larger than the company's small in-house consulting business, but he had run several divisions inside Siemens's medical unit and won a reputation as a turnaround expert. Then 44, he was younger than most of his predecessors, but that meant the U.S. could be a career stepping-stone, not just a last reward. Indeed, if he succeeds, Mr. Kleinfeld could emerge as the front-runner to replace the 62-year-old Mr. von Pierer, who is expected to retire as soon as the fall of 2004.

The son of East German refugees who fled to the West, Mr. Kleinfeld grew up in a working-class neighborhood near the Bremen shipyards. Fighting his way up from those modest beginnings, colleagues say, instilled an iconoclastic streak that suited him well to the task of shaking up Siemens's staid culture. He is also a self-described America lover who has been known to blast rock music in the company jet.

Mr. Kleinfeld started as U.S. chief operating officer in January 2001. Finding a hodgepodge of unprofitable operations, he began putting together a plan to evaluate the U.S. businesses and fix, close or sell them, with guidance from Mr. Schulmeyer, who remained CEO through 2001, and other senior U.S. executives.

"We'd made acquisitions where you questioned why they had been made," Mr. Kleinfeld says.
Not everyone welcomed the change. As Mr. Kleinfeld, who assumed the CEO's job in 2002, pushed units to meet their targets or face closure, the various divisions started complaining to Munich about plans to dispose of or change their businesses. But Mr. von Pierer and the board, pointing to the weak 2001 performance, backed Mr. Kleinfeld. "People weren't used to things being done that way," Mr. Kleinfeld says.

In his early moves, Mr. Kleinfeld sold or closed hurting or superfluous operations such as metering and pumps, commuter trains and petrochemicals. Under his watch, Siemens has shed more than 10,000 workers from its U.S. payroll. In 2002, the number of money-losing enterprises in the U.S. was cut to eight from 24.

Siemens One

He has also sought ways to prod the disparate units to cooperate. His main vehicle is a new entity known as Siemens One, a 40-person administrative unit based near Atlanta that pushes interaction among the Siemens units and their customers by compiling joint bids for major projects that involve several parts of Siemens and coordinating their efforts during the work. Another 200 people attached to various parts of the company are assigned the task of seeking cross-selling opportunities.

The unit has had some successes — in June 2002, it teamed with Boeing Co. to beat several U.S. rivals for a $1.37 billion federal government contract to install bomb detectors in 429 airports. But even getting it off the ground required months of planning and delicate negotiations for Mr. Kleinfeld.

For the first time, Siemens is also putting great effort into polishing its public image here. Recently the company has bought billboard advertisements in major airports and commercials on Sunday morning news shows such as "Meet The Press" as well as contributing to New York City's Olympics bid.

It also has aggressively beefed up its lobbying arm in pursuit of government contracts and influence on government policy. With a staff of 24, Siemens's team is among the largest of any foreign company in the U.S. Once directed from Munich, it is now run largely from New York and Washington, a big change, says Gregg Ward, the head of Siemens's government affairs office in Washington. "When you've been the dominant force, it's not easy to say, 'We'll defer to your judgment,' " he says of his Munich colleagues.

Among other things, Siemens has pushed for legislation to allow purchasers of its turbines speedier tax write-offs on depreciation. Another goal: measures that would raise Medicare's reimbursement rates for CAT scans and similar tests, which could boost purchases of Siemens equipment.
"I like to refer to Siemens as an American company with a proud German heritage," says Mr. Ward, who previously advised the Department of Energy and the Environmental Protection Agency on Congressional matters. "We don't use the 'F-word,' — foreign."

Yet the cultural battles continue. Earlier this month, Siemens executives here were slated to meet with 25 money managers, representing funds valued at a total of $250 billion. The investors were supposed to stop by Siemens's new telecommunications solutions center in Silicon Valley as part of a tour of technology companies in the area.

But the U.S. executives forgot to check in with Munich. When financial division bosses there heard of the plan, they promptly canceled the meeting. A terse internal e-mail from Munich cited "company policy" for the move, according to one of the recipients.

A Siemens spokesman said the company was concerned the fund managers would push for financial details despite the technology focus, adding that Siemens's executives regularly meet with investors and analysts in the U.S.

But many here found the move frustrating. Says a U.S.-based consultant involved in the project: "Siemens's style wouldn't allow for that type of interaction. The chief financial officer doesn't want anyone in the U.S. talking on the company's behalf."

The U.S. already is getting greater attention at the senior levels. Mr. Kleinfeld recently won a seat on the group's management board, giving the U.S. a direct voice at board level for the first time.
But some managers argue that Siemens won't truly change until the company's German-dominated leadership does. "Until you have Americans and Asians on the board, we're going to be viewed as an insular company," Mr. McCausland says. "When a high-level Siemens executive goes in to see a customer, they expect a German accent. If it's an American, they step back and say, 'That's good.' They begin to realize that this story about being an American-based company has some teeth to it."

That kind of makeover seems far off. Yet Mr. von Pierer says Siemens's "Americanization" is continuing. The U.S. stock listing and more-transparent accounting standards mandated by regulators here already have increased the company's focus on the bottom line, he says.
Working in America, Mr. von Pierer adds, is now almost a rite of passage for up-and-coming German executives. "America," he says, "has permanently altered our culture as well as our approach to business."

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