



**F**or those who consider corporate globalization to be a relatively recent phenomenon, Siemens CEO Heinrich von Pierer would politely beg to differ. Headquartered in Munich, Germany, Siemens AG has been a global company from its inception in 1847, when Werner von Siemens invented the pointer telegraph, says von Pierer. The invention—which enabled Samuel Morse’s 1844 original electromagnetic telegraph to transmit actual letters rather than Morse code—led von Siemens to launch the Siemens & Halske Telegraph Construction Company.

In fact, Siemens laid much of the vital infrastructure for today’s expansion. In 1848, the company constructed Europe’s first electrical long-distance telegraph line, from Berlin to Frankfurt. In 1855, Siemens & Halske opened its Russian office. In 1870, the company constructed the first telegraph line between London and Calcutta; and in 1874, it did the same between Ireland and the U.S.

In 2004, Siemens continues the company’s original mission, providing mobile phones, computer networks, and wireless technology that drive modern business. In addition

to its information and communications group, the company now comprises six other business groups that handle automation and control, power, transportation, medical technologies, lighting, and financing and real estate. It has evolved from von Siemens’ original entrepreneurial vision to its present-day dominance, employing 400,000 people and operating in 190 countries.

Siemens, in short, is a force of globalization in and unto itself. Fortunately, so is von Pierer, who holds doctorate degrees in law and economics. He joined the company’s legal department in 1969. He subsequently worked in its sales force, headed its power group, and sat on its board before he became president and CEO in 1992. Undoubtedly one of the most well-traveled CEOs in the world, von Pierer spends much of his time in the air, on his way to meet with key customers, employees, government leaders, investors, and journalists in all of Siemens’ global markets. It’s a function that’s “highly interesting and fun,” he says, not to mention absolutely critical to keeping the company, its vast workforce, and its varied markets connected.

It couldn’t be more fitting that Siemens’ origins are inextricably linked with the invention of a machine that made possible real-time, long-distance communication. Open communication and innovation aren’t merely a part of Siemens’ history, says von Pierer. They’re the foundation for its formula for managing change and ensuring its future success.

by **Tricia Bisoux**

# Man, One Business

Whether a company measures its workforce in hundreds or hundreds of thousands, its success relies solely on individual performance, says Siemens CEO Heinrich von Pierer. Failing to demand each individual’s best, he warns, will inevitably lead to the worst.

**You started with Siemens in 1969 as part of its legal department. Why did you move into management?**

I got a degree in economics as well as my law degree, a combination that opened up many possibilities for a career in management. Once at Siemens, I quickly realized that my interests lay less in doing staff work than in getting out on the “front line” of business.

**What was your management training like?**

In my case, I worked on power plant projects largely outside Germany. I also participated in a wide range of management seminars, but I believe on-the-job training was by far the most valuable preparation.

**What early experiences do you believe were most essential in preparing you for your current role as CEO of such a multinational company?**

I think experiences that allowed me to take personal initiative have been critically important in my current role, experiences that taught me always to look for new challenges and new solutions and always be open to learning. For example, I worked as a newspaper writer and editor for years to finance my studies. Later, I served on the city council of Erlangen, Germany, to develop a better perspective on community needs and the political process. That broad spectrum of experience, which allowed me to work with people on every level, was very valuable.

**Business schools are trying to teach students to operate and perform in the real world of business. Yet, you point to experiences *outside* business, such as journalism and civil service, as essential to your management training. Do you think that employees who have considerable real-world work experiences outside business are better managers than those who have been trained only within business environments?**

I wouldn't say so categorically. I do think it's important that business schools provide hands-on experiences to create well-rounded individuals. However, people who enter the business world with other real-world experiences already under their belts have tremendous advantages, too. They often bring fresh, new perspectives and creativity—something highly critical as business becomes more global and complex.

Today, for example, we must compete in more countries and deal with more diverse groups than ever before. This includes governments, customers, regulators, analysts, non-governmental organizations, and other entities. This new



complexity means the managers of tomorrow must be multi-faceted and able to deal with almost constant change. Broad experience *outside* the business world often provides critical skills for life *inside* the business world.

**When you look back at those early experiences in your career, is there anything you wish you had learned before moving into a management role?**

In my early days at Siemens, one learned more by doing than by being taught. But today, in our age of globalization, managers must have comprehensive skills in areas like change management. This wasn't taught back then. I later discovered that change is far more difficult to manage and takes far more time to accomplish than I ever expected.

**How do you ensure that Siemens managers develop skills in change management today?**

Like many companies, Siemens has dealt with its share of tremendous change during the past decade. In particular, our businesses were impacted by the deregulation and liberalization of markets, globalization, and the rising significance of international capital markets, to name a few. Each presented unique business challenges, and we responded with programs for enhancing business excellence and changing our business culture. Both are successful, although the first

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program was implemented in a relatively short time and the second was a longer term task.

In terms of management training, we developed *top+*, a companywide program to strengthen our competitiveness. *top+* offers managers a tool box for improving business excellence and is based on three basic principles: setting clear and measurable goals, implementing concrete actions, and imposing rigorous consequences. Our *top+* program has been highly successful and has provided managers with a clear road map for achieving business excellence. It has also changed the management mindset at Siemens where we are now truly performance-oriented and have a clear portfolio strategy that guides our entire business. Every manager knows *top+* is our guiding philosophy, and it's communicated in various ways throughout the company.

**With *top+*, Siemens managers earn their bonuses and stock options only as a result of improved performance; and, as you mention, they face consequences for poor performance. With this system of rewards and consequences, do you fear an Enron-like environment where managers may be afraid to report bad results or financial failures, for fear of losing their bonuses or even their jobs?**

To fit the ever tougher competitive environment, we had to develop a true performance culture. In positive cases, this means that managers receive incentives like bonuses and stock options. And in negative cases, it means that we look for someone else who can deliver. Thousands of our managers now have up to two-thirds of their salaries directly pegged to performance. This has changed our culture dramatically and fueled growth across all our businesses.

We are worlds apart from the example you cited. Siemens has long been conservative when it comes to such financial matters. This dates back to our founding more than 150 years ago and is one of the reasons we have been in business so long. We issue quarterly reports on business segment results to a degree not found at many other companies.

We also have long adhered to a practice known as “dual control,” in which major company decisions from the top on down must be taken with the consent of another designated company officer. This has helped curtail the possibility of rogue employees operating against the company's interest. Plus, at the company's highest level, in addition to the managing board, we have another body called the supervisory board. This body—which has no real equivalent in the U.S.—consists of shareholder and employee representatives. It is charged with overseeing and advising the manag-

ing board and can provide a system of checks and balances.

In addition, because Siemens is listed on the New York Stock Exchange, we are bound by U.S. generally accepted accounting principles, which promote even more financial transparency. Yes, we unquestionably hold managers accountable for performance. But, we also combine a number of safeguards in our corporate governance and in our day-to-day management that help ensure against the kind of scenario you mentioned.

**In addition to *top+*, Siemens also invests more than €500 million in training each year. How much emphasis does Siemens place on management training, and to what extent do you partner with business schools to acquire that training?**

We take management training at Siemens seriously—and we put our money where our mouth is. For example, at our Siemens Learning Campus in Germany, we have six facilities that offer everything we need in areas such as strategy, finance, sales, marketing, management, IT, business applications, and intercultural cooperation. We believe the best benefits come from within our own management, so we place a great deal of emphasis on internal trainers, especially since they have broad and deep company knowledge. Their know-how leads to a significant multiplier effect within the company.

We're well aware of the concept that “A company that keeps learning, keeps growing.” And wherever it promises value-added benefits, we combine our internal trainers, who work throughout Siemens, with external trainers who bring experience and learning from top business schools and universities.

**If you were designing a business school curriculum for your managers, what would you most want it to include?**

In recent years, we've seen that management training must be ever closer to business realities. In a global company like ours, management training must be adapted to the specific needs of our businesses in different countries. Germany, the U.S., and China all have different cultures, and traditional methods of training may or may not be suitable. Siemens Management Institute in Beijing, for example, not only gives our managers there the general business skills they need worldwide, but also prepares them for the unique circumstances of the Chinese market.

If I were designing a business school curriculum, I would focus on five main areas. First of all, the curriculum should be adapted to the specific needs of each region. In Europe, for example, we need to focus on European issues, such as the

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concerns of Western companies looking east and of Eastern companies looking west. Second, the curriculum should include a special focus on the relationships between technology and its management. Third, it would be ideal if the business school curriculum also focused on private sector and public sector management education under a single roof. Fourth, it should particularly focus on leadership at the mid-level of organizations, an area that is often neglected.

Finally, business schools need to develop new leaders who can lead beyond the bottom line. That is, leaders who deal with broader issues like ethics, a sustainable economic and ecological environment, and employment. These are just some of the issues a good business school curriculum should address.

**Siemens comprises seven separate business areas and operates in 190 countries. Does the extensive international nature of your company pose a specific challenge to its managers, and how do you make sure they're prepared?**

Our management training program stresses the common and enduring values behind our corporate culture—values that can really be called universal to all companies, such as integrity, trust, quality, and dependability. In addition, we rely on intensive intercultural training so our people understand and respect cultural differences and can effectively work outside their own countries. Siemens is, in itself, a multicultural society. We deeply value that diversity.

**It's interesting to hear you describe Siemens as a "multicultural society." I know Siemens works to cultivate that society—the company even circulates a document called "Guiding Principles for Promoting and Managing Diversity." What does it mean to "manage diversity"?**

We have various projects throughout the world to promote diversity in our workforce. In the U.S., for example, our five-year Diversity Strategic Initiative is tapping new potential by focusing on the areas of recruiting, filling key jobs, mentoring, and communicating. Nationwide, our employees are put through training so they better understand the strategic significance of diversity.

In Germany, our Promoting Diversity project concentrates on improving women's work situations and opportunities. In South Africa, our Empowerment Policy moves beyond the company to help former Siemens employees from previously disadvantaged groups set up their own businesses. So, for us, "managing diversity" has a number of different meanings and approaches throughout the world.

**What is the strategic importance of diversity for modern businesses?**

I can't speak on behalf of other companies, but I can assure you diversity is of strategic importance to Siemens. Our company today has more than 400,000 employees, with some two-thirds of that number working outside Germany. Siemens must compete not only in its respective business marketplaces, but for the best and brightest minds in diverse, multicultural settings around the world.

It ties in with what I said before, about bringing new perspectives to the workplace. Diversity gives us the flexibility to be global and local at the same time, think out of the box, and drive the company's innovative spirit.

**With so many employees operating in different business areas and in so many different regions of the world, is there a danger of individual business units—and employees—becoming isolated within the larger company?**

In the past, if we were frustrated by problems in our internal communication channels, we would say, "If only Siemens knew what Siemens knows!" But in today's age of the Internet and global knowledge networking, we have solved that problem permanently. For us, knowledge management is a crucial success factor.

We have roughly 100 business units that are vertically organized worldwide and run on the principle, "one man, one business." At the same time, we are strengthening our horizontal networking between these units by exploiting all available synergies. This means, for example, best-practice sharing among our groups and regions—the efficient management of our worldwide knowledge pool.

ShareNet, our knowledge management system and network, allows managers to access and benefit from the company's large stock of knowledge. It's just one tool in our system. It allows our people to draw on the experiences and know-how of others to avoid wasteful duplication. I personally like to use business examples from ShareNet to demon-

strate to business partners and customers how quickly we can solve their problems. I find it a highly effective and convincing instrument.

**What exactly does the principle “one man, one business” mean for Siemens and its employees?**

All of our 14 groups are treated as global entrepreneurs. That means they have their own executive management that is responsible for running their businesses according to the policies set by Siemens AG’s managing board. Plus, they own all the resources they need to be successful. It also means they develop their own strategies, manage assets, and generate earnings in their respective markets. In essence, our groups and regions are given the independence needed to successfully run their businesses, but they do so with strategic oversight from the managing board.

The more interesting development, though, is our current effort to combine best practice sharing horizontally from all regions and groups. For example, with the Siemens One initiative in the U.S., we are presenting one face to the customer while pooling the capabilities of various groups. We combined technologies from our medical, logistics, and security capabilities to develop explosives detection equipment that we and Boeing installed at more than 400 airports across America. We’ll pursue more joint efforts like this in the future.

**You have said that one of Siemens’ primary strengths is its ability to innovate. As innovation cycles become shorter and advancements must be made with increasing speed, how do you think Siemens will stay at the forefront of innovation?**

Innovation is our lifeblood and has been for well over 150 years. Today, speed is critically important, and success or failure depends on the time to market for both our long-cycle and short-cycle businesses. Therefore, our managers fully integrate our customers into the development cycle. That constant and close contact allows us to respond quickly and flexibly to emerging market needs.

In fact, we find innovation so important that every year we honor the top company innovations worldwide with the Siemens Innovation Awards. For our part, we invest heavily in R&D—more than €5 billion last year—to ensure our pipeline is kept full. Just as important, we sustain this level of investment even in difficult times, because the pace of innovation will keep increasing no matter what the economic environment.

Eventually, I think all future managers will take this incredible pressure for granted. Even now, we are beginning to see it as a normal part of business.

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**Business schools have become very interested in questions of ethics, governance, and sustainable development. For its part, Siemens promotes corporate citizenship and sustainable development, follows its own corporate governance model, and has adopted the German Corporate Governance Code. At the same time, you've said that Siemens operates by the principle "Cash is king," something many businesses may be afraid to say so bluntly, for fear the public might confuse that sentiment with greed! How do you show the public that corporate citizenship and profit-making aren't mutually exclusive?**

Well, I believe this supposed conflict is quite artificial. We know that only a profitable company has the financial clout to successfully shape its destiny by investing in the future—in areas like R&D, vocational training, and continuing education. Profitability is critical for offering employees secure jobs over the long term. And we know that only people who don't have to worry about their jobs will be contented, motivated, and creative. Without such people, we can't be successful.

Profitability and citizenship, then, are not a contradiction, but two sides of the same coin. Cash is the key. But one must guarantee that every principle of good corporate governance is rigorously followed. Absolute integrity will assure the public that greed plays no role at all.

**You have been at Siemens for more than 30 years. What do you most hope to accomplish as its leader in upcoming years?**

Most of all, I hope that Siemens employees throughout the world will have learned how to master their respective businesses and ensure that those businesses can sustain leading positions. I hope that our people will have identified and fully exploited every possible synergy within our company. And I hope that every business will stand firmly on its own, since cross subsidies cannot be tolerated over the long run. If these three basic conditions are met, I'm confident that Siemens will prevail as the industry benchmark.

**What trends and issues should business schools prepare themselves and their students for in the next decade? What do you foresee as management's greatest challenge?**

The greatest challenge we all face, today and in the future, is the ability to change and adapt successfully to new conditions, whether brought about by a recession, a new technology, or the opening of new markets. The ability to learn, accept, and apply new ideas must be so ingrained in the management mindset that speed and flexibility are guaranteed. At the same time, we must continue to hold to the highest standards of integrity and transparency. But the future will see an ever faster pace of development: The slow will be punished. 