

The biggest bribery cases in business history

[Government](#), [Corruption](#)



**ASSIGN
BUSTER**

Case Number One

i. Introduction:

Siemens AG is one of the world's largest conglomerates; it is Europe's largest electronics and engineering company. With that said the extent of Siemens AG network flows from one end of the world all the way to the other. It has businesses in almost 190 countries and employs over 360, 000 people throughout these countries. After going through reconstruction several times over its one hundred and fifty plus year history, Siemens AG had seven different business areas before 2008; those areas included Information and Communication, Automation and Control, Power, Transportation, Medical Solutions, Lighting, and Financing and Real Estate. Several of these business areas have sub-areas as well. Being such a large conglomerate has its perks of course, but it does have its disadvantages as well. Its sheer size leaves Siemens AG vulnerable in the sense that the top management cannot possibly control every part of every business that is spread out all over the world.

The different countries that Siemens AG has business dealings in all have different laws and codes about what companies can do and what they cannot. Although most countries have "outlawed" bribery, it still remains prevalent because enforcing it is much more difficult to do in practice than in theory. Some government officials in various countries do not care for the anti-bribery laws and insist on receiving bribes from potential companies that want to win contracts. This completely undermines the laws on the books, but until someone gets caught, the wrongs committed go unpunished. A couple million euros here and a couple million euros there does not seem like

much when the contracts that the companies are winning are worth billions of dollars. Siemens AG was not immune to the prevalent bribery problem that faces nearly every multinational company. Until 2006, the general public had no idea about Siemens AG's involvement in bribery and fraud. The conglomerate was involved in shady deals and all sorts of different bribery schemes that came to light in 2006. The fines that Siemens AG agreed to pay totaled to over one billion euros, which was in addition to the billions of euros that it had to pay in taxes and late interest charges. Siemens AG was involved in several scandals, including: slush funds to win contracts abroad, bribing employee representatives, and bribing foreign officials. The German government lifted the veil of secrecy from Siemens AG, and all of a sudden, the world knew what was happening behind closed doors.

ii. Problem Definition:

Between 1999 and 2006, Siemens AG made illegal payments to different government officials and employee representatives to the tune of around 420 million euros. Not only did this scandal damage Siemens AG's reputation, but it also affected their financial statements due to the back taxes and fines that it had to pay. Despite the fact that Siemens AG acknowledged the fact that its employees were involved in fraud, it was still the company as a whole that would take the hit. In light of this situation, a former board executive, Thomas Ganswindt, was arrested as well because he was aware of the questionable payments. Payments were found to be made to secure contracts in the fixed line telecommunications business in different countries. Along with the payments to secure contracts, bribes were paid to officials in Italy, Puerto Rico, Greece, the U. S, and various other countries.

Moreover, in 2007, German officials raided Siemens AG offices based on allegations that company officers were bribing employee representatives of the AUB labor union in order to win support for their policies. This allegation was brought on by the dominant labor union IG Metall after several members of the union began noticing how Siemens showed favoritism towards AUB and even suspected Siemens AG of financing AUB. Following the labor union bribery scandal, German courts convicted two previous managers of Siemens AG, Andreas Kley and Horst Vigener, of embezzling company funds to pay off employees of the Italian energy company, Enel. The former employees did admit to paying two Enel managers over six million euros between 1999 and 2002 to win a contract to build gas turbines. These payments were made to executives in Monaco, Dubai, and Abu Dhabi. Not only did Siemens AG employees commit fraud and bribery in Europe, but the company was being investigated in other countries as well. The company's entities in Venezuela, Argentina, and Bangladesh were being probed by government officials in each respective country due to several different allegations of potential crimes committed. Siemens AG faced charges of paying millions of euros to Nigeria, Russia, and Libya to receive infrastructure contracts. Siemens AG as a whole allowed these crimes to go on, and they were certainly punished for their role in these scandals.

iii.

Analysis:

In order to understand why all of this bribery and fraud went on for so long in Siemens AG, we must understand the fact that as we enter more and more into the age of globalization, the international markets become more and more saturated with competition. Instead of two companies bidding for a

contract in another country, there are several companies bidding and playing fair does not always win the contract. Even though individual employees were making the bribery payments and embezzling money, they must have known that this was all okay, because of the climate that Siemens AG fostered. The amount of money involved in the seven year scandal was too much just for a couple of mid-level employees to be involved with all alone. Over 420 million euros was involved in the scandal, there had to be more than just the employees who were arrested involved. For example, Andreas Kley and Horst Vigener, both former managers, admitted to paying six million euros to the Italian energy company Enel, but they do not just make that decision on their own. Six million euros missing is a lot to explain to top management if Kley and Vigener were truly the only ones involved. But because the contract with Enel was valued at 450 million euros, the six million seemed like an expense although it was a blatant bribe. Bribery is illegal and therefore it is unethical, companies should win contracts based on their merits, not on how much money they can afford to give away as a bribe. Siemens AG knew very well that this was illegal and they should not have been participating in it, they just their best to not get caught. According to the article, "At Siemens, Bribery Was Just a Line Item," former accountant Reinhard Siekaczek, stated that from 2002 to 2006 he oversaw an annual bribery budget of about \$40 million to \$50 million at Siemens. "It was about keeping the business unit alive and not jeopardizing thousands of jobs overnight," stated Mr. Siekaczek. This was clearly ingrained in the mentality of the employees involved, it must have come from nowhere else but "company policy." Siemens does have a long history of bribery, dating back to

after World War I when the company first started to go to markets in less developed countries. Bribery became the norm and until 1999 it was allowed to be deducted as a business expense under the German tax code. After Germany adopted anti-bribery laws in 1999, Siemens continued its “normal” business operations instead of complying with the law. Siemens AG as an entity allowed bribery and fraud to be a part of its culture and did nothing to alleviate the stress of it, until late 2006, when its offices were raided. Compared to the one billion euros that Siemens AG paid for the settlement of the corruption charges, the bribes paid were less than half of that, so the question is, was it really worth it for the company to put itself at risk like that? iv. Recommendations:

Although there were several players involved in the game of fraud and bribery between 1999 and 2006, someone from the top must have known what was happening. Top management claimed to have no clue to the millions of euros being transferred from different banks between several countries all around the world. As previously stated, the bribes were just seen as a business expense, even when the governments of many countries outlawed them. Instead of dealing with the problem themselves, the top management at Siemens AG basically played a game of heads and tails, hoping to not get caught, which in the end it lost. Siemens AG is an enormous multi-national conglomerate, so the excuse of “we didn’t know it was happening” may have some validity. But according to the article “At Siemens Bribery Was Just a Line Item,” Mr. Siekaczek indicated that Siemens AG executives had him sign a document that stated that he was following the company’s compliance rules. This automatically shows that there were

much more people involved, especially more higher level executives and that they knew what they were doing was illegal. Instead of at least trying to play by the rules, no matter how tough international markets are becoming to penetrate, Siemens AG did not even try. The company could have been proactive in stopping the bribes and fraud but chose not to, relying on luck to let them slip by unnoticed until it all came crashing down. There could have been tougher rules and punishments for offenders, but none of this was the case. Their code of conduct was just for publicity purposes, no one actually adhered to those rules. Top management should have started the compliance program in 1999, when the anti-bribery laws were made, not in 2006 after they got caught red handed. In order to avoid bribery and scandals such as this one, companies like Siemens can agree to different terms to win contracts with different countries such as agreeing to hire local workers, having a certain percentage of local managers, and helping the environment in which they are working in or setting up a factory. Companies can proactively try to enrich the environment of where they are setting up, and this in turn will help them steer away from the threats of bribery because the money that would be used for bribes, would instead be put to good use. Transparency is what allows consumers, potential stockholders, and investors to trust a company as large as Siemens AG. This is what Siemens AG lacked, and it is instrumental in order for it to be in good graces with the public. The company needs an overhaul of its system because it obviously isn't enough and the best way to do this is to start with the top and work down towards the bottom because the problem was prevalent throughout the company, not

just an individual sector or an individual employee. There needs to be a new set of eyes and ears that holds employees accountable for their rule breaking, actually firing them or suspending them, not just giving them a slap on the wrist as Siemens AG was doing. An Ethics Program should be put in place for any new executive hire so that they fully understand the magnitude of the problems stemming from bribery and fraud. The CEO of the company is the face of the company and should always be informed of what is going on in the company. Only a couple months after the scandal broke out, CEO Klaus Kleinfeld was forced out. Although Kleinfeld was instrumental in the restructuring that took place during his time there and helped to raise the stock price of Siemens AG by 26% in only two years; he did nothing to help the bribery that plagued Siemens. He failed to proactively help stop the bribery and fraud, even though most of it took place before he was appointed CEO, but this is the role of the CEO. He should know what is going on in his company and therefore the board was just in ousting him from the position. Siemens AG's employee's morale may lower at first because Kleinfeld was not technically involved in the bribery, but he was part of the old Siemens way and a fresh start was needed.

v.

Conclusion/

Outlook:

The bribery and fraud scandals have hurt Siemens in more ways than one. Financially Siemens AG did have to pay a hefty sum of money in fines, fees, taxes, and interest. The company has also lost the trust of the public and that is something that takes time to recover. Corruption and bribery are still widespread and Siemens AG is just one of the many companies that are finally getting caught. Now is the time for Siemens to take a leap forward

and play fair, even if that means winning less contracts, because at the end of the day, ethical immorality is a slippery slope that anyone can get caught on. The scandals that rocked Siemens were just the tip of the iceberg, the issues we are dealing with are so deep that it will take some time to fix, but having an effective compliance program is the first step. Siemens AG has to be willing to spend money on hiring outside consultants that can truly help them avoid another scandal like this and put faith back into the company and its employees. There are still a decent number of countries today that have bribery as a common practice in government, this cannot be avoided. We as a society have to help spur the change that these countries need because in the end, they will lose out on all the advantages of doing business internationally if everyone comes together and actually restrains from bribery. This is an idealistic solution to the problems that plague the international business community, but Siemens AG can be one of the pioneering companies that stick to the anti-bribery laws and in due time it will be rewarded for its valiance against the corruption that plagues the world. For now, Siemens AG must make amends with the public and with the governments investigating it; otherwise it will never fully recover its morale and the morale of its employees. In order to get past this, Siemens AG must admit that more than the people who were investigated or arrested were involved, because there were top level executives involved in the scandals and it must purge itself of these people to fully commit itself to being as transparent as it can be. For now Siemens AG should take one step at a time to make sure that it has combed through every possible wrongdoing that any of its employees may have been involved in, this will help shield it from

future government action because it would have already dealt with the problem. This is to be a lesson learned by other multi-national conglomerates, if you as the company do not fix the problems of bribery and fraud, then prepare for a world of trouble when government officials come knocking (or tearing down) your doors.

vi.

References:

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