Case study of siemens

Business

Case Study10 Siemens’ Simple Structure–Not There is perhaps no tougher task for an executive than to restructure a European organization. Ask former Siemens CEO Klaus Kleinfeld. Siemens, with 77 billion Euros in revenue in 2008, some 427, 000 employees, and branches in 190 countries, is one of the largest electronics companies in the world. Although the company has long been respected for its engineering prowess, it’s also derided for its sluggishness and mechanistic structure. So when Kleinfeld took over as CEO, he sought to restructure the company along the lines of what Jack Welch did at General Electric.

He has tried to make the structure less bureaucratic so decisions are made more quickly. He spun off underperforming businesses. And he simplified the company’s structure. Kleinfeld’s efforts drew angry protests from employee groups, with constant picket lines outside his corporate offices. One of the challenges of transforming European organizations is the customary active participation of employees in executive decisions.

Half the seats on the Seimens board of directors are allocated to labor representatives. Not surprisingly, the labor groups did not react positively to Kleinfeld’s GE-like restructuring efforts.

In his efforts to speed those efforts, labor groups alleged, Kleinfeld secretly bankrolled a business-friendly workers’ group to try to undermine Germany’s main industrial union. Due to this and other allegations, Kleinfeld was forced out in June 2007 and replaced by Peter Loscher. Loscher has found the same tensions between inertia and the need for restructuring.

Only a month after becoming CEO, Loscher was faced with a decision whether to spin off the firm's underperforming 10 billion-Euro auto parts unit, VDO.

He had to weigh the forces for stability, which want to protect worker interests, against U. S. -style pressures for financial performance. One of VDO's possible buyers is a U.

S. company, TRW, the controlling interest of which is held by Blackstone, a U. S. private equity firm. German labor representatives have derided such private equity firms as " locusts.

" When Loscher decided to sell VDO to German tire giant Continental Corporation, Continental promptly began to downsize and restructure the unit's operations. Loscher has continued to restructure Siemens.

In mid- 2008, he announced elimination of nearly 17, 000 jobs worldwide. He also announced plans to consolidate more business units and reorganize the company's operations geographically. " The speed at which business is changing worldwide has increased considerably, and we're orienting Siemens accordingly," Loscher said.

Since the switch from Kleinfeld to Loscher, Siemens has experienced its ups and downs. Since 2008, its stock price has fallen 26 percent on the European stock exchange and is down 31 percent on the New York Stock Exchange.

That is better than some competitors, such as France's Alcatel-Lucent (down 83 percent) and General Electric (down 69 percent), and worse than others, such asIBM(up 8 percent) and the Swiss/Swedish conglomerate ABB (down 15 percent). Though Loscher's restructuring efforts have generated far less controversy than Kleinfeld's, that doesn't mean they went over well with all constituents. Of the 2008 job cuts, Werner Neugebauer, regional director for a union representing many Siemens employees, said, " The planned job cuts are incomprehensible nor acceptable for these reasons, and in this extent, completely exaggerated.

When asked by a reporter whether the cuts would be controversial, Loscher retorted, " I couldn't care less how it's portrayed. " He paused a moment, then added, "" Maybe that's the wrong term. I do care. " Questions 1. What do Kleinfeld's efforts at Siemens tell you about the difficulties of restructuring organizations? 2. Why do you think Loscher's restructuring decisions have generated less controversy than did Kleinfeld's? 3.

Assume a colleague read this case and concluded " This case proves restructuring efforts do not improve a company's financial performance. " How would you respond to this statement? . Do you think a CEO who decides to restructure or downsize a company takes the well-being of employees into account? Should he or she do so? Why or why not? Sources: Based on A. Davidson, " Peter Loscher Makes Siemens Less German," The Sunday Times (June 29, 2008), business. timesonline . co.

uk; G. Frey, " Siemens Cutting 17K Jobs Worldwide to Cut Costs," Fox News (July 8, 2008), www. foxnews. com; M. Esterl and D. Crawford, " Siemens CEO Put to Early Test," Wall Street Journal (July 23, 2007), p. A8; and J. Ewing, " Siemens' Culture Clash," BusinessWeek (January 29, 2007), pp. 42–46.