

Case Study:

Organizing Siemens for Global Competitiveness

The German company Siemens is one of the world's great engineering conglomerates manufacturing everything from hearing aids and medical scanners to giant power generation turbines, wind systems, and locomotives. By the late 2000s, however, Siemens was struggling with subpar performance relative to its global rivals such as General Electric (GE), Honeywell, and United Technologies. In July 2007, Siemens hired Peter Löscher as CEO, replacing Klaus Kleinfeld, and gave him the task of trying to revitalize the organization. Löscher, an Austrian whose career included major leadership positions at GE and Merck, was the first outsider to run Siemens since the company's establishment in 1847.

In 2007, Löscher inherited a global organization of significant complexity. At the time, Siemens had 475,000 employees and revenues of \$72 billion, operated in a wide range of industries, and had activities in more than 190 countries. As a comparison, today, Siemens employs about 362,000 people, with revenues of about \$79 billion, and covers a similar number of country markets. At the time, Siemens was organized into 12 operating groups, which were further subdivided into 70 business divisions. Although each division had its own product focus, such as wind power or molecular imaging, Siemens worked hard to deliver integrated solutions to customers. This required many of the 70 business divisions to cooperate with each other on large projects.

Siemens also had a strong tradition of local responsiveness. The countries where the company was the most active had their own executive manager, known as "Mr./Ms. Siemens." This individual acted as the country manager for all Siemens businesses in a specific geographic area, and was also CEO of the respective local company. The operating group and business division structure was often replicated within the local company. This resulted in a matrix organization, with the head of the power generation business in, for example, Argentina, reporting to the local country CEO and to the global head of the business division.

It was the responsibility of Mr./Ms. Siemens and his or her staff to manage relations with local customers, develop bids for projects, and ensure that business divisions cooperated on the delivery of a project. Local companies were given significant discretion over product specifications for local clients. Thus, the local company in Argentina might bid on a subway project in Buenos Aires, tailor that bid to meet the needs of the local client, and if the bid was accepted, make sure that there was sufficient cooperation between the different business divisions in order to successfully complete the project.

Löscher could see the virtue in this organization—it tried to meld together global scale at the business level with local responsiveness at the country level—but it was very complex to effectively and efficiently implement. In his view, there were too many direct reports to the corporate headquarters, resulting in significant overload. There was also a serious accountability problem. If the company failed to deliver a project profitably—let's

say the subway system in Buenos Aires—who, then, was responsible for that: the local managers or the managers of the business divisions? Löscher believed that country managers had too much power in the structure, and the business divisions had too little and were not accountable enough.

In 2008, Löscher changed the organizational structure to deal with these power and accountability issues. He consolidated the operating groups into three main sectors: industry, energy, and health care. The business divisions were placed within their respective sectors. He then organized the 190 country units into 17 regional clusters and gave them primary responsibility for developing a cost-efficient regional infrastructure, focusing on customers and managing sales organizations. Profit and loss responsibility was assigned to the sectors and business divisions. Previously each operating group and national subsidiary had maintained its own separate profit and loss accounts. This change was a shock to the Mr./Ms. Siemens around the world, who were told that their goal was to contribute toward the global operating income for a sector and business division. While not doing away with local responsiveness, Löscher had effectively reduced the power of country managers within the Siemens structure, making them directly responsible for boosting the profitability of the global businesses.

Löscher went further, instituting a management view process that led to the replacement of half of the company's top 100 managers. Löscher is now directly involved in the appointment of the top 300 management positions at Siemens. He also took out two layers of top management that had no operational accountability in the older company structure. His goal in making these organizational changes has been to replace managers who did not buy into a new way of doing things, and to increase the performance accountability of the people who ran the sectors and business divisions.

Sources: B. Kammel and R. Weiss, "How Siemens Got Its Mojo Back," Bloomberg Businessweek, January 27, 2011; V. J. Racanelli, "The Culture Changer," Barron's, March 10, 2012; S. G. Leslie and J. Sorensen, "Siemens: Building a Structure to Drive Performance and Responsibility (A)," Stanford Business School Case, October 7, 2010.

Case Discussion Questions

1. How would you characterize the strategy for competing internationally that Siemens was pursuing prior to the arrival of Peter Löscher? What were the benefits of this strategy? What were the costs? Why was Siemens pursuing this strategy?
2. What strategy is Löscher trying to get Siemens to pursue with his streamlined "power and accountability" initiative? What are the benefits of this strategy? Can you see any drawbacks?
3. Does the "power and accountability" initiative imply that Siemens will now ignore national and regional differences?