

New paths in a time of crisis

1989–2006

The years from 1989 to 2006 confronted the company with challenges unlike any before – including the first comprehensive reform of the corporate organization, the launch of the Ten-Point Program, and the compliance crisis – that compelled its chief players to make fundamental changes.

1989 was a year of profound changes, not just for Germany and global politics, but for Siemens. Twenty years after the company's last major organizational reform, there was a need for action. Siemens AG had outgrown the structure that had been laid out back in 1966 and 1969. Where revenues in fiscal 1969 had been 12.7 billion deutschmarks, by 1986 they had risen to 51.4 billion. The number of business units had grown to eight by the end of the 1980s.

Karlheinz Kaske, CEO from 1981 to 1992, aimed to improve "mobility, effectiveness and competitiveness," with an organizational structure that took due account of the company's changing environment – the technological paradigm shift from mechanical devices to electronics and microelectronics, the growth of international business, a greatly expanded worldwide customer base, and ever-intensifying competition. So top management first of all set up a more effective administrative structure. The eight former business units were rearranged into 15 new, leaner units, two operating Groups with their own legal form, and two independent Divisions. Each was responsible for its own profits and value chain – from development through production to sales – and each was managed by three Group Executive Managers. Top management, which formerly included more than 30 people, was



cut by a third. A Corporate Executive Committee, with clear authority to decide overall strategy, replaced the former central board. Sales operations were decentralized.

The reorganization from 1989 would remain in place until 2006 and laid the groundwork for managing the company's future tasks.

Computer technology – High hopes and disappointment

Siemens had invested high hopes in computer technology in the late 1980s. To rein-force its capability from outside, the company took over the majority of stock in Nixdorf Computer AG as of October 1, 1990. The new acquisition was then combined with the existing data and information technology unit to form Siemens Nixdorf Informationssysteme AG (SNI), which became a wholly-owned Siemens subsidiary in 1992. But the takeover and subsequent integration proved more complex than expected. Staff cuts, management changes and two extensive reorganizations followed. SNI became the strongest-selling European computer maker, but did not live up to expectations as a growth driver. In 1998, Siemens Nixdorf Informationssysteme AG was dissolved as an independent company and fully integrated into Siemens AG. The personal computer business was contributed to a joint venture with Fujitsu. Extremely volatile business developments, short product cycles and dramatic drops in prices made the business less and less predictable for Siemens, ultimately leading to the spin-off decision.



Takeover of a majority interest in Nixdorf – Siemens Nixdorf Informationssysteme AG (SNI) became the strongest-selling European computer maker, but disappointed as a growth driver

Buy, cooperate, sell or close – The Ten-Point Program

All in all, the 1990s proved to be an economically challenging decade. The company had been contending with major difficulties since 1997 at the latest: the economic crisis in Southeast Asia, delivery delays in railroad equipment, profit slumps in power plant equipment, the repercussions of misjudgments of the mobile phone market, and the collapse of the semiconductor market faced Siemens with challenges that were reflected in the price of its stock, which



lagged significantly behind the DAX exchange as a whole. The situation called for a systematic approach. An extensive reform was unavoidable.

The Ten-Point Program announced by CEO Heinrich von Pierer in 1998 represented an important turning point in Siemens history. Governed by the motto “Buy, cooperate, sell or close,” it led to drastic changes in the company. The portfolio retained only those activities where Siemens was first or second in the global market. The expanded top+ corporate program made economic value added the obligatory defining measure of performance. And accounting was changed over to the US GAAP standard – in part to enhance transparency, but also to prepare Siemens to be listed on the New York Stock Exchange (NYSE). The listing took place on March 12, 2001.

The capital markets welcomed the Ten-Point Program with near-euphoria. Siemens stock soared, revenues and earnings improved significantly, and enterprise value added was positive. Frequent changes would follow. In 1999, Heinrich von Pierer wrote: “Siemens is a living organism, and optimization of our business portfolio is a never-ending task.”

A new strategy – Megatrends become a business driver

When Klaus Kleinfeld took over as head of the Managing Board in 2005, he found Siemens on the right track. He viewed energy, infrastructure and healthcare as the three pillars on which the company could keep growing profitably. To that end, he focused the company on the megatrends of the day: urbanization, the growing world population, and demographic change. These trends were covered by Siemens' core business lines: energy and the environment, automation and infrastructure, and healthcare. Acquisitions were in line with this approach as well. The company reinforced its capabilities from outside by adding the water specialist USFilter; Bonus Energy, the world market leader in offshore wind farms; gear-unit maker Flender; and CTI Molecular Imaging in medical technology.



Expanding business in the USA – Getting Siemens stock listed on the New York Stock Exchange was one of the key goals of the Ten-Point Program.



Focusing on megatrends – Energy, infrastructure and healthcare as pillars for future growth.



The compliance crisis –

Compliance violations draw severe consequences

But then Siemens fell into one of the most dangerous phases in its entire history: the compliance crisis. A mixture of lack of transparency, unclear lines of responsibility, manipulation of customers' officers and employees, and vigorous criminality on the part of some individuals had long lain hidden. When the problems came to light in 2006, the company was thrown into a profound existential crisis of trust.

It responded, taking the necessary steps. Compliance work became a center of attention. A large number of top managers were replaced. Peter Löscher as CEO and Gerhard Cromme as Chairman of the Supervisory Board pushed for a deep-reaching, rigorous investigation. Extensive cooperation with American and German authorities kept the penalty imposed on Siemens relatively mild, though it still came to a record figure of some EUR 1.2 billion. The court proceedings ended in December 2008. Additionally, a system for conduct in compliance with the rules was established that was declared a benchmark for business in 2011.

In 2007, Siemens could look back on 17 eventful, turbulent years – years characterized by challenges and crises, but also by the successful management of these obstacles. Years that had a substantial effect in shaping the company, because they highlighted the constant need for the company to take new paths.

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