

Siemens



Betting
that **Big**
is once again

Beautiful

by Marsha Vande Berg

Those concerned about the growing pains of globalization wonder how the world economy will adjust to the looming presence of multinational conglomerates. But the opposite question is equally relevant: how will the multinationals adjust to a global economy as rapid changes in technology, political climate and regional business cultures force them to run just to stay in place? Few companies face as many of those challenges as Bavaria, Germany-based Siemens.

The massive electronics and engineering conglomerate is leading German companies' rush to embrace American-style shareholder values, with their pressures to maximize stock price. In addition, coping with the stresses of size requires the sort of managerial discipline that is generally in short supply in old-line European businesses. The Siemens version is a self-styled program of "creative destruction" under the leadership of president and CEO, Heinrich von Pierer. In 1998, von Pierer's "ten-point excellence program" started as nothing less than a cultural revolution for a firm that came of age in the era of Germany's "iron chancellor," Prince Otto Eduard Leopold von Bismarck.

A GLOBAL FIRM FROM ANOTHER ERA

The firm was founded in 1847 in Berlin as Siemens & Halske Telegraph Construction Company. The early discoveries of Werner von Siemens (1816-92) led to the building of Europe's first electrical long-distance telegraph line, from Berlin to Frankfurt am Main. Soon thereafter Siemens & Halske was en-

gaged to build telegraph systems worldwide, including the Indo-European line between London and Calcutta. The first transaction with China included supplying the Chinese with the first "pointer telegraph" in 1872. Two years later, it helped lay a transatlantic cable between Ireland and the United States.

Siemens' entry into the maelstrom of multinationals that scour the globe for economies of scale and superior returns was delayed by World War II. Siemens lost four-fifths of its resources due to the war, and in 1998, it joined other German industrial giants in an agreement to pay compensation to victims of the Nazi war machine.

Arguably, Siemens' most prescient initiative in its efforts to rebuild as a global corporation after World War II was its 1982 decision to open an office in Beijing. In doing so, it demonstrated an early commitment to Deng Xiaoping's economic reforms, which would later pay off handsomely for the company – not to mention for China.

A GLOBAL FIRM IN THE GLOBAL ERA

These days Siemens is being shaped by its need to survive in the bewilderingly risky global-business environment. As the information technology revolution continues to shrink the world, as cross-border commerce and investment double and re-double, Siemens works at distinguishing itself as big, tightly managed and careful to take the long view on economic cycles.

To this end, Siemens' business plan uses a three-pronged approach: brand the company as a one-stop solution for the world's engineering and technology needs; make large investments in regionally based research and development; knit together production ranging from light bulbs to cell phones to power plants with Sharenet, the company's multi-million dollar e-business networking system.

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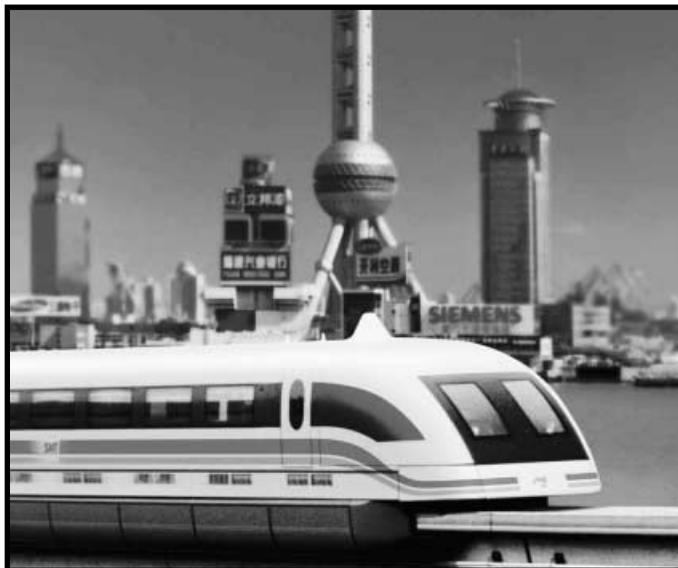
While Siemens' corporate headquarters is near Munich, nearly 80 percent of the firm's business is international. Worldwide the company has 470,000 employees, including 75,000 in the United States and 25,000 in China. The company also has multiple visions of itself. In Germany, Siemens is a relatively conservative blue chip; in America, an aggressive alternative to General Electric; in China, a part of the national economic miracle.

Siemens' conceptual scorecard is tallied by market share and earnings at each of its 14 divisions. Divisions are focused on widely diverse business segments – transportation, lighting, power, automation and control, medical, and information and communications – each of which is considered a major company not bound by geography. Both the United States and China operations are under holding companies that oversee their respective regional activities. Over the past five years Siemens has laid claim to \$8 billion in U.S. acquisitions, including that icon of American industrialization, Westinghouse. As a result, the United States has replaced Germany as Siemens' top market.

The company is increasingly influential in Asia – China is Siemens' number three market – and as such, is helping to pull the center of Asian economic activity in China's direction. Siemens Ltd. China supports more than 50 offices, and has used its hefty local R&D budget to build relationships with the country's key research institutes. "Siemens did not come here to go away," Siemens China president, Ernst Behrens, told the *South China Morning Post* last July. "We want to be seen as a Chinese company."

SIEMENS (AU)

Technology, communications and infrastructure projects dominate the firm's China portfolio. One of Siemens' more highly publicized Chinese projects is a venture with ThyssenKrupp to build a magnetic levitating train. The contract was inked last November when German Chancellor Schroeder had lengthy



conversations with leaders in China, including Prime Minister Zhu Rongji.

The Germans will build the cars and stations while the Chinese will build the track. Scheduled for completion in 2003, the project includes trains that float on a magnetic field above the rails and cover the 20.5-mile route from Shanghai to the city's new airport in eight minutes. Successful completion of the maglev project also is expected to yield additional contracts for Siemens – notably, a big piece of an estimated \$20 billion in rail projects linking Shanghai with the cities of Hangzhou and Beijing.

ADVENTURES IN TELECOM

Another Siemens' focus in China is telecommunications, where an all-things-to-all-

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people strategy also offers insights into how multinationals conduct business in today's globalizing world. Siemens started by supplying handheld mobile phones. Today, the company is expanding into a variety of related telecommunications infrastructure projects being built around competing digital stan-



dards. Indeed, Siemens' presence covers all the bases – so-called 2G (second generation) systems, 2.5G and 3G.

Involvement in the dominant 2G technologies appears to be a critical element in Siemens' intention to take market share from cell phone market leaders Nokia, Motorola and Ericsson. To that end, Siemens seized an opportunity to be named the provider of mobile phones to participants at the annual Asia Pacific Economic Cooperation conference last October in Shanghai and attended by world leaders including George W. Bush, Vladimir Putin and Jiang Zemin.

Still, the approach did not insulate the company from last year's global downturn. Like the other big players, Siemens suffered

from an oversupply of telecommunications capacity. It faced a sharp drop in profits in both fixed-line and mobile communications units. The downturn threatened the viability of roughly one-third of Siemens' enterprises. Management lopped off 17,000 jobs, mostly in Germany, and the company looked to other sectors to make up for the slow growth in telecom. In the process, Siemens' management also convinced powerful German employee councils to accept the change. In an economic swing, it is nearly impossible to achieve balance within a single region, explains Gerhard Schulmeyer, who retired Jan. 1 from his job as president and CEO of U.S. Siemens Corp.

Meanwhile, some company officials also took note of the difficulties that face any company choosing to go it alone amidst sweeping changes in a marketplace. Siemens' board member Volker Jung was quoted as saying that only undisputed telecom leader Nokia is capable of going solo and remaining a profitable purveyor of telecom equipment in last fall's tough times. At the time, the buzz was that Siemens intended to consolidate a portion of its business with that of equally hard-pressed Motorola.

So far, nothing has come of the speculation, dismissed as "rumors" by Siemens. Both companies also announced massive additional R&D investment in China – and both initiated job cuts in their respective domestic markets. Siemens also boosted its China portfolio by inking an agreement to roll out an extension of Tibet's mobile phone system based on GSM (Global System for Mobile communication) technology. According to media reports, the work in Tibet is in addi-

tion to Siemens' other multimillion-dollar deals to build out GSM mobile networks for China Mobile and China Unicom.

In the United States, Siemens is set to piggyback on a decision by Cingular, America's second-largest network, to overlay GSM technology throughout its network. Siemens is supposed to supply GSM handsets and infrastructure. Both companies are trying to position themselves to take advantage of growing interest in dual-use technology in the U.S. market.

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From Siemens' perspective, the work also can open the door to a prospective 3G market in the United States. These so-called third-generation mobile phones are touted as providing anytime, anywhere Internet access provided they have the necessary bandwidth to download files. Once again, Siemens appears to be utilizing its size to cover the bases in a sector. Noted here is Siemens' investments in technologies that compete with the GSM standard – notably, Qualcomm's CDMA technology.

Back in Asia, Siemens' interest in CDMA gives the company a better opportunity to capture market share where the battle over 3G technology standards is ahead of that in the United States. Siemens is also making sure it does what it can to stay on top of the China telecom heap. It is in China that Siemens earns one-third of its mobile infrastructure revenues. Also, China has passed the United States in terms of numbers of cell-phone circuits (with 120 million-plus users) and remains the world's fastest growing market.

Siemens' investment in China telecom

R&D is also considerable. Its partnership with state-owned Datang Telecommunications Group and Huawei Technologies – along with the Chinese Academy of Telecommunications Technology – is a case in point. With \$1 billion in Siemens' investments, the partnership is planning to roll out 3G systems based on the hybrid TDS-CDMA technology.

The company is betting that TDS-CDMA has a shot at dominating China's 3G market. TDS-CDMA is a 3G system developed by the Chinese and celebrated as a patriotic achieve-

ment in the Chinese media. In 1999, it was accepted as one of three global standards recognized by the International Telecommunications Union as being capable of handling high-speed data transmission for mobile phones.

Siemens' officials are unabashed about their hopes for investments in a range of competing telecom technologies as well as in widely diverse marketplace sectors. Indeed, Schulmeyer argues that the company's diversity is what allows it to survive in the rapid boom-and-bust nature of new economy industries such as telecom. Then if new economy sector activities do poorly, Siemens can count on old-economy sectors with longer cycles, such as power plants and medical systems, to pick up some slack.

This approach, tailored for a dauntingly unpredictable globalized marketplace, shuns the current conventional wisdom that favors a tight focus on core competencies. Big can be beautiful as long as big translates into relatively steady growth in earnings and market share. **M**