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Too little, too late? Anti-corruption measures

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Siemens belatedly wakes up to reputation risk

IT IS a dense, dramatic account of police raids, arrests and the investigation into allegations that at least euro200m ($265m) was siphoned out of secret bank accounts in Liechtenstein, Austria and Switzerland. A page-turning airport thriller? No, the 20-F filing submitted by Siemens, a German conglomerate, to the Securities and Exchange Commission in Washington, DC on December 11th. At the same time, the firm restated its earnings to take account of uncertainties over transactions being investigated by state prosecutors in at least three countries.

The purpose of these murky dealings remains unclear: was it a case of self-enrichment by crooked employees or something more sinister—carefully laundered bribes to win Siemens business in some of the 190 countries in which it operates? Siemens insists that it was a victim of crime not an accessory to it. It is investigating euro420m of suspicious payments to consultants over the past seven years. Meanwhile, six present and former employees, including one former board member arrested on December 12th, are in custody.

In the flow of adverse publicity since police raided 30 of its offices a month ago, Siemens has tried to show that it is taking appropriate action. It announced the formation of a “task force” to clarify and standardise its employees' business practices. It also appointed an ombudsman to encourage internal whistleblowing. But for Transparency International (TI), an anti-corruption campaign group, this was not enough. It had already suspended Siemens's membership of its German chapter in 2004 because of the company's reluctance to be transparent about an unresolved bribery case in Italy. (The case was settled last month without admission of guilt.) Siemens's sluggish reaction to investigations in Liechtenstein triggered a letter last month from TI warning that the firm's membership would be liable for termination after December 15th.

At an emergency board meeting this week Siemens announced new measures to show how determined it is to change its culture. It appointed a law firm to investigate the company's compliance and control systems. And it appointed **Michael Hershman**, an anti-corruption expert and one of the founders of TI (a nice touch), to review anti-corruption controls and training at Siemens. But will this be enough to save the company's reputation or its planned joint venture, Nokia Siemens Networks, which is due to start business on January 1st? The reputation risk could give Nokia grounds to pull out.

Some of Siemens' problems stem from the 1990s, before Germany and other nations signed the OECD's anti-bribery convention in 1999. Yet the Italian case post-dates the convention and another case in Greece concerns preparations for the 2004 Olympics. Siemens and the Munich prosecutors point to evidence that in the latest shenanigans the suspects “banded together” to defraud the firm. There is only so much one can do, sighs a Siemens spokesman, against “criminal energy”.

But even poor supervision and control, rather than connivance with bribery, are bad enough. It cannot help appearances that Heinrich von Pierer, who was chief executive of Siemens in the 1990s before bribery was outlawed, still heads the supervisory board. He was supposed to steer the company through its transition to OECD anti-bribery rules and compliance with America's Sarbanes-Oxley act, which requires greater disclosure and personal responsibility from executives. Worst of all for Germany's reputation as export champion of the world is the suspicion that it may owe some of its prowess to secret bank accounts and slush funds.

Klaus Kleinfeld, Siemens's chief executive since January 2005, may escape the full wrath of shareholders. But he still has plenty to do to reach self-imposed profit targets for some of the group's worse-performing divisions such as business systems, which is loss-making, and communications, where profits are sliding. The constant bad publicity cannot help.

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