

A bold makeover at Siemens

By Michelle R. Beuscher and Gregory J. Millman

Under pressure from the investment community, the electronics and engineering giant responded with a sweeping overhaul of its financial information and reporting systems, plus a listing on the New York Stock Exchange—all in just 24 months.

The late 1990s had not been easy for Siemens.

The Southeast Asian economic crisis, turbulence in the important Russian market and problems in operating businesses led the 150-year-old global electronics and electrical engineering giant to adopt a 10-point program for change and take a Dm4 billion (\$1.8 billion) restructuring charge. Analysts were skeptical. Cash flow was ebbing. The business trend line sloped like a ski run.

Munich-based Siemens needed to reassure the investment community about its fiscal health, but the company's lack of timely, quality financial information clearly was contributing to investors' waning confidence.

"Speed and transparency of our financial reporting have an impact on the attractiveness of Siemens to investors as well as on the cost of capital," explains Hermann Giehrl, head of information systems management in Siemens' corporate finance organization.

Siemens responded to the need to shore up shareholder value with two bold initiatives: a sweeping overhaul of the company's financial information and reporting systems, and a listing on the New York Stock Exchange, the world's most important securities market. For the \$77 billion company—operating through 16 different business units and 1,200 fully consolidated subsidiaries in more than 190 countries—just one of these challenges would have been formidable. But Siemens resolved to tackle both at once. Remarkably, just 24 months later, it had succeeded.

Company profile: Siemens

Headquarters: Munich, Germany
President & CEO: Dr. Heinrich von Pierer

Employees: 484,000

Types of business: Information and communications; automation and control; power; transportation; medical; lighting

Sales: €87 billion

Net income: €2 billion

(Source: 2001 Annual Report)

Even in an era of global capital flows and instantaneous, cross-border trading, the NYSE remains the capital of capital. A Big Board listing confers not only prestige but also access to a liquid and efficient market with low clearance and settlement costs. Still, notwithstanding its international importance, the NYSE is a US institution, regulated by the distinctly American Securities and Exchange Commission. And SEC rules require any company seeking a listing on any exchange in the United States to prepare its financial reports in accordance with US Generally Accepted Accounting Principles.

An NYSE listing would also put Siemens in direct, regular contact with an entirely new constituency: Wall Street analysts and traders, whose demand for timely financial information would be relentless. This added to the urgency of streamlining the company's financial processes.

The compliance challenge

Siemens had always used German accounting practices, which are largely tax-driven and do not generally reflect the underlying economic reality of business. US accounting standards, despite their evident shortcomings, more accurately reflect a company's true economic performance. Yet even US GAAP falls short when it comes to focusing attention on the efficient utilization of shareholder capital.

As part of its response to the economic shocks of the late 1990s, Siemens had adopted the EVA methodology: Management now focused on the fact that the ultimate goal was not to increase sales revenues or accounting earnings but rather to add value to the capital shareholders had entrusted to the company. But accounting based on

economic profit and the cost of capital added another layer of complexity to the company's already daunting challenge.

Mind-numbing

Given Siemens' size, its global presence and the diversity of its businesses, any change in the way the company measured and reported financial performance—particularly when doing so involved reconciling the different accounting practices of two countries—was bound to create challenges. For example, German practice requires accounting for large-scale, long-term projects on a completed contract basis. By contrast, US GAAP requires using the percentage-of-completion method. Accounting for hedges, valuation of inventories and receivables, pension accounting—all are done differently in the two countries, sometimes mind-numbingly so.

In addition to the NYSE listing requirements, the financial overhaul addressed important cost issues. At the time, the company, in accordance with standard European practice, was preparing two separate sets of financials: internal management reports generated by operating businesses, and consolidated reports offering abbreviated performance results for outside parties, including investors, analysts and lenders. The time and money needed to prepare dual reports were prohibitive.

So besides complying with US GAAP standards and continuing to conform to German accounting principles, Siemens' corporate financial professionals added the goal of integrating management reporting and legal consolidation. If Siemens could pull it off, it would become the first European company to create a single integrated global stream of reporting, based on US GAAP,

using one system and operating through a single organization.

Some European companies have taken an easier approach to seeking an NYSE listing: They simply continue to run their organizations using German or International Accounting Standards and then translate the numbers to US GAAP for reporting purposes.

Bottom-up

But Siemens deliberately chose a bottom-up approach to introducing US GAAP. "Siemens now lives and breathes the US GAAP air," CFO Heinz-Joachim Neubürger told *Financial Executive* magazine shortly after the company was listed on the Big Board. "To not do it this way would have introduced quite a few complexities in a far-flung organization like ours. It's much more consistent to run everything under one set of rules."

Meanwhile, putting the solution in place presented an entirely different set of challenges. "We didn't have the technical skills or manpower to design and implement this new business capability," recalls information systems chief Giehl. Adopting US GAAP methodologies would require widespread cultural adjustments and employee reeducation throughout the worldwide organization, continues Giehl. "This meant that the execution of the effort would have to be precise, well orchestrated and thoroughly tested to effectively minimize and manage Siemens' business risk." Moreover, the technological infrastructure at some affiliated subsidiaries, especially in Africa and China, was inadequate for the task.

As if all this weren't daunting enough, Siemens undertook a wave of mergers and acquisitions as the changes were being implemented.

This, when added to the organizational restructuring, resulted in a near doubling of the scope of the project.

Working with Accenture, Siemens implemented a global mySAP.com capability using a Web-based technology to integrate its management and legal reporting functions. SAP Business Information Warehouse made all financial reporting and closing available via the Web. Meanwhile, Siemens' corporate finance organization, also with Accenture's help, reengineered its processes. Previously separate work plans, flow charts, time frames and deliverables were integrated into a single, cohesive process.

Impressive as it was, the new technology would have been of little use without training employees how to use it. Siemens turned to a "company readiness tool," a performance simulation methodology designed by Accenture to assess an organization's overall preparedness, including the effectiveness of its training curriculum. As an added quality-control measure, an online user survey identified specific follow-up actions needed by the company's individual business units.

Speaking the same language

End to end, the sweeping transformation was completed—on time and on budget—in four phases in about two years, between September 1998 and September 2000. On March 12, 2001, Siemens was officially listed on the New York Stock Exchange.

Today 3,000 users throughout Siemens' worldwide corporate finance organization have secure, real-time access to consolidated financial data—the same information in the same format in the same currency. No matter where they are,

they all speak the same financial language—not only with one another but with shareholders and other outside parties as well.

Roland Lochner, CIO of Siemens Industrial Solutions and Services, led the SAP Business Information Warehouse project. He notes that "our stretch goals could only be realized with a centrally managed, Web-enabled system. Now we know, at the push of a button, who has reported data, the quality of the data reported, and who needs to refine and resubmit their data." Adds Giehl: "The system is easier to configure and has greater flexibility. And the integration of individual processes enables us to greatly accelerate closings."

More quantifiable benefits have included a 50 percent cycle time reduction for financial reporting and consolidation and a 25 percent cost savings through streamlined information delivery. The number of monthly and quarterly financial reporting events has declined by more than two-thirds. And whereas before the overhaul it could take as long as six weeks to make any changes in financial data, turnaround time has been slashed to less than two hours.

Giehl sums up the results succinctly: "We achieved better control over our figures." And better control over the figures, of course, has translated into access to investors in the most important equity market in the world. ■

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