

*Business social responsibility should not be coerced;
it is a voluntary decision that the entrepreneurial leadership
of every company must make on its own.
John Mackey*

Introduction

Siemens is an electronics giant with more than 400,000 employees, with a history of over 160 years, revenue of €72.4 billion and income from continuing operations of €3.9 billion in the fiscal year 2007. According to Siemens' internal guidelines, most people expect the company "to go hand in hand with compliance with laws and regulations, and a sense of responsibility toward our employees and the environment" ("Internal Guidelines," 2002, p. 1).

Furthermore, investors that read Siemens' code of ethics for financial matters, which was introduced in 2002 as a consequence of Section 406 of the Sarbanes-Oxley Act, would expect Siemens to act with honesty and integrity, to ensure the timely and accurate documentation in the financial statements. Also, to act responsibly and in good faith, to ensure responsible use of all assets, to comply with all applicable laws, guidelines and regulations ("Code of Ethics for Financial Matters," 2002, p. 1). However, does Siemens act ethically?

Body of the paper

The scandal of Siemens is almost global, since it involves 160 countries. The leaders of the company in order to secure that specific contracts would be signed, created a system of "special orders," bribe management, and fake agreements. There are entries in the company's books that verify bribes offered to Greece from 1998 till 2006, when the scandal came to the surface in 2006. The illegal flow of money totaled €10 million in Greece. Other countries that also scored high in bribery are Nigeria, Columbia, and

Kuwait. The top-cashiers of Siemens testify that they were responsible for sending the money to different countries. Their mission was to “execute the significant company order” which was called “Make Profit” (Bugatsou, 2008 p. 1).

One and a half years after the scandal, Siemens tried to come clean. An American law firm investigated all the company’s activities. Based on the investigations, it was claimed that Siemens employees paid €2 billion in bribes to get contracts in the developing world. Furthermore, the law firm found violations of the law in almost every division they have looked. The fact that Siemens is listed in the US and should follow the SEC and the Foreign Corrupt Practices Act could lead to a fine up to four times the size of the bribes, which was estimated at €8 billion.

In July 2007, Siemens decided to sue two former CEOs and nine other executives for setting up a system of kickbacks to secure lucrative foreign contracts that financially damaged the company. Based on the investigation, the misappropriation of funds involved more than €200 million. Their process was simple: cash was allegedly deposited in hidden accounts and used as bribes in return for receiving lucrative contracts for the Munich-based electronics and engineering firm.

Siemens Hellas

There is evidence, based on the legal papers of the Public Prosecutor’s Office of Munich and on the testimonies, that:

1. Two separate administrations of the Greek Governments, New Democracy (2004 – present) and PA.SO.K (1998 – 2004), were illegally sponsored by Siemens.
2. The Minister of Defense, the Minister of Athletics, and the Minister of Interior accepted bribes. For example, they received money regarding the purchases of C4I

(Command and Control Center for the Olympic Games, Athens 2004) and other equipments.

3. Bribes were given to the top managers of the National Organization of Telecommunications of Greece (O.T.E.), and to its subsidiaries located in different countries (Siemens Hellas Bribes, 2008 p. 1).

Siemens and OTE

According to the legal papers, there was an illegal agreement between Siemens and O.T.E., which was called 8002. Based on this agreement, O.T.E. was obligated to order its supplies only from Siemens for the years 1998-2002. The price the Greek government paid to Siemens was €158 billion and €222 billion to Intracom, one of the major companies in Greece and suppliers of O.T.E.. The shareholders of O.T.E., its top managers, and the Greek government (New Democracy, 2001 – present, PA.SO.K, 1998 – 2001,) supported this policy, since they took part of the profit. The profit for Siemens was €885 million (Papachristos, 2008).

The legal papers also include Siemens' sponsorships of O.T.E.'s shareholders who made sure that O.T.E. would continue ordering from Siemens. O.T.E. also promoted Siemens' products to its own suppliers in third countries. To be more specific, there were agreements with Globul (Globul is a telecommunications company in Bulgaria, which belongs to O.T.E.), with Armentel (O.T.E. used to hold 90% of the Armenian company till 2007), and finally with Romtelecom (O.T.E. holds 54.01% of the Rumanian company since 1998) (Bugatsou, 2008 p. 4).

Siemens and Olympic Games of Athens 2004

The security system C4I was also part of the Siemens scandal. This system was

used during the Olympic Games 2004 that took place in Greece. There was evidence that Siemens offered to bribe Greek officers of the government. To be more specific, Siemens was the main sub-supplier and sub-constructor of this system. The cost of this agreement for the Ministry of Defense was €250 million, while Siemens managed approximately €160 million, negotiated and committed part of the project to third parties. The code for this system in the books is called “Olympic Games of Athens-2004” and includes the flow of money that Siemens offered to the Ministries of Defense and Interior through Siemens Hellas for all the contracts or for lobbying (Bugatsou, 2008 p. 3).

Reinhard Herbert Siekaczek's Confession

People did not hesitate to call this scandal as Siemens-Gate. Reinhard Herbert Siekaczek, a top trade manager of the Enterprise Network of Siemens and responsible for the bribe management, testified seven times at the Public Prosecutor's Office of Munich and at the Crime Prosecution Service in less than six months. It is true that he confessed everything he knew in detail. He even testified about evidence that he had kept to ensure his personal trustworthiness in case Siemens denied everything (“Ex-Manager At Siemens Is Convicted in Bribe Case,” Carter Dougherty, 2008, p. 1). In the following paragraphs we will discuss the main points of his testification concerning the Siemens Hellas.

Reinhard claimed that Dr. Niedl, his predecessor, was responsible for the "system of secret payments" till 2001. Among the papers that were confiscated in Zurich there was a document signed by Dr. Niedl where it was mentioned that 8% of telecommunications industry profits was given to Siemens representatives of Siemens Hellas. Money from this percentage also went to Fiberlite from Dubai. This amount was given in order to attract new customers, promote the company, expand to new markets, etc. Mr. Mauridis, prior

CEO of Siemens Hellas, also took money from Siemens, while he had another source of finance the Intercom Telecommunication Systems organization. Greece was one of the most successful subsidiaries.

Siekaczek and Keil von Jagemann, a former manager at the company, were responsible for the investment of this percentage. Siekaczek gave a great deal of details regarding the profits and the amount of money Mauridis asked for. The amount of money was not transferred legally since the receivers were unknown and their identity could not be revealed. Regarding Mauridis, Siekaczek says that he was the receiver of “secret payments” since 2000. Siekaczek had to give money to him several times, but he is not sure what Mauridis did with that money. When bribes were asked, they used to note that in a yellow “post-it paper,” so it would be easy to destroy the paper, if needed. They also had a specific code. For instance, "OSW" means Oswald and refers to Mauridis, while “Placid” means Greece (Bugatsou, 2008 p. 2).

Moreover, Siekaczek referred to the Placid Blue Corporation, which was mentioned in the papers from Lichtenstein, where the investigations started. This company was receiving 2% of Siemens’ Hellas profit every year. This company had an account at ABN Amrobank in Monaco, which was financed from Information Communication Networks (ICN). When these payments needed to be made, Christoforakos, CEO of Siemens Hellas, went to Bernsan and then to Kutschenreuter in order to receive their order. By this way, payments to Placid Blue Corporation yearly fluctuated from €1 to €4 million.

Siekaczek also confessed that Christoforakos told him that the money through Placid Blue Corporation finally went to political parties in Greece. From the companies accounts that Floriani had in Switzerland it becomes obvious that money, €2 to €3 million,

transferred to Fairways. The money was used to pay supplies regarding the C4I system.

There is also the case between Fairways (Greece) and Thing Partners SA (Brazil), which has an account at Jacob Safra Bank. When Christoforakos gave Siekaczek a bank address he then, understood that both these companies had the same company address in Switzerland. This could have been a coincidence or the same important person could have been behind these two companies. The identity of this person can be revealed with the contribution of Switzerland government.

Furthermore, Siekaczek, regarding C4I, mentioned that he created a folder under the name “Olympic Games of Athens-2004”; in there were all the documents and protocols of conversations and agreements. In the same folder, which was at the Enterprise Networks, there were also the names of the persons involved. It is true that C4I was a very successful project for Siemens, since Siemens contributed to the security of the Olympic Games. Christoforakos mentioned that, in order Siemens to undertake the project, it had to give money to the Ministry of Defense, the Ministry of Interior, and the Ministry of Athletics. The total amount of money was about €10 million.

There were two more people involved in this case. These are Kantounis and Dendrinis. The former is shareholder of Siemens and he was also working at Olympiako Metro, a company that was administrated project for the Olympic Games. The latter is a shareholder at Siemens One, he used to be the right hand of the former CEO of Siemens and he was also responsible for the bribes.

Siekaczek also mentioned that the agreements between KRHOMA and Weavind, regarding C4I, were fake. In other words, these two companies did not offer any assistance to Siemens for the C4I. The reason why they should gather money for bribes is due to the

continuous claims. Therefore, they created a “coin bank” from which they could take money in case of emergency.

Investigations ongoing

In July 2007, the supervisory board of the German electronics and engineering group decided that claims should be brought against 11 former members of the main executive board who left as the scandal was exposed. Two former chief executives, Heinrich von Pierer and Klaus Kleinfeld, were included. The company accuses them of supervisory failings in the period 2003 to 2006 (Bugatsou, 2008 p. 4).

Siemens agreed in October 2007, to pay a fine of €201 million to put an end to some of the German legal proceedings. Since, the firm's shares were also listed in the United States, it is subject to a potentially damaging and expensive probe by the US Securities and Exchange Commission (Schiermeier, 2007).

Furthermore, in July 2008, the Munich court convicted Reinhard Siekaczek, imposed a €108,000 fine, and gave a two-year suspended sentence following an eight-week trial. German justice officially it still investigating the company as part of a probe that began in 2006 and has shaken the engineering giant to its core (“In Brief”, 2008 p. 1).

Conclusion

One that reads Siemens’ internal guidelines and code of ethics for financial matters will think that business ethics begin at the top of this company. That Siemens’ board of directors is commitment to earn a profit within ethical boundaries. That honesty, fairness, and justice is the base of every action they do. “Business ethics is not difficult to understand but it is difficult to practice” (Jennings, 2007, p. 36).

Most companies experience legal and financial problems because they cross ethical lines. Siemens is one of them. We do not know if Siemens' management team began with small misdeeds that grew larger, but we definitely know that Siemens' main executive board's unethical actions created tremendous financial problems to the electronics giant (Jennings, 2007, p. 41).

Siemens' ex-leaders did not lie; neither did they steal. However, they gave false impressions. They took unfair advantages, compared to other companies, by buying influence (first layer of business ethics). Their actions were not only unethical but they were also illegal (Jennings, 2007, p. 38).

True leaders should work together in order to obtain maximum profit but always keeping in mind that honesty, fairness, and justice should characterize any action they take. Siemens' case should remind us that as tomorrow's managers we should prevent problems before they became a legal issue and try to fix them (Jennings, 2007, p. 58, 62).

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