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# Siemens CEO Klaus Kleinfeld: "Nobody's Perfect, but a Team Can Be"

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Corporate leaders must build international organizations to compete in today's economy and be prepared to defend globalization at home, according to Klaus Kleinfeld, chief executive of the German electrical and engineering conglomerate Siemens AG.

Speaking at a recent Wharton Leadership Lecture, Kleinfeld said U.S. concerns about the sale of port assets to a Dubai-based firm, and French resistance to the sale of yogurt-maker Danone -- which French officials called a "national treasure" -- highlight growing fears that globalization comes at the cost of jobs in developed countries. Those fears could spark a backlash against globalism and limit future economic growth, he warned. "The common people -- the voters -- do not understand what's going on and see a threat," said Kleinfeld. "We, as leaders, need to be responsible for explaining the positives of globalization."

Siemens, with sales last year of $91.5 billion and locations in 190 countries, operates a range of businesses, including power, transportation, automation and controls, healthcare, lighting, and building technology. Germany, where Siemens operates out of joint headquarters in Munich and Berlin, has benefited as a net exporter in an increasingly global economy, Kleinfeld suggested. "But people do not connect the dots. Business needs to do the explaining more than ever before. If we don't, in a democracy things swing according to what the common man thinks -- and that's scary."

Siemens was a pioneer in extending the German workweek from 35 hours to 40, with no additional pay, in 2004. Unions grudgingly agreed after the company threatened to move plants to Hungary. This spring, unions have targeted Siemens and DaimlerChrysler AG for strikes this year by workers seeking a 5% pay increase.

At 48, Kleinfeld, is a marathon runner who is viewed as a youthful and outspoken business leader in Germany and a person who is in touch with American business culture after a three-year stint in Siemens' U.S. headquarters in New York.

During his Wharton lecture, Kleinfeld stressed his conviction that increased labor flexibility will ultimately benefit German workers. "If people want to compete, they have to adjust and understand what the world is like," he said. "I can only hope that more and more people understand that only if we are competitive will we have secure jobs and be able to offer new jobs."

With 460,000 employees worldwide, including 70,000 in the United States, the 159-year old company is the world's eighth largest private employer. Siemens' German operations employ 165,000 and are costly to run, Kleinfeld noted, but they are not a drag on the overall corporation. "The teams in Germany are among our most intelligent. They bring our products to world markets at a fast pace. You should never change a winning team." He said customers from all over the world come to Siemens facilities in remote parts of Germany to learn about cutting-edge products. "Whether I have additional costs, or not, doesn't matter as much as the speed to market and the quality of the design. We're not talking about a pure cost game."

Siemens is expanding rapidly in Asia, the Middle East and other parts of the globe, including the United States. In 1995, Germany represented 43% of sales, but that figure dropped to 21% by 2005, while the percentage of German employees declined from 57% to 36% in the same period.

The company's global expansion has raised concerns about "offshoring" in Germany. "Offshoring is a funny thing for an international company. Where is your shore?" asked Kleinfeld. "My shore is as much in India and China as it is in Germany or the U.S." Siemens will continue to migrate to developing regions where new sales are growing. "I really see more international businesses, or fragments, run out of those growth regions like India and China," he said.

The company "is going to invest in almost all of the opportunities we see that make sense for us," noted Kleinfeld, who added that Siemens is not limited in its expansion by finances. The biggest constraint is a lack of qualified people to lead businesses in these new markets. Indeed, his lecture was titled "Next Generation Talent Management."

"In today's world, knowledge travels faster than ever before, so if you are talking about a sustainable competitive advantage, probably the only one is the quality of the people you have and the way they interact as a team," he said, adding that leaders within Siemens are evaluated on general management abilities, such as analytic skills, and on personality traits, including self-discipline and the ability to speak out for what they believe in. In addition, Siemens looks for rising executives with a specialty, such as a background in math or engineering, a second language or industry expertise. "What I want to see is an individual who has the passion to do a deep drill to understand something to the very bottom."

**Exporting German Engineering**

Kleinfeld earned a PhD in strategic management from the German University of Wuerzburg in 1992 and a master's degree in business administration and economics from the University of Goettingen. He joined Siemens in 1987 in the company's corporate sales and marketing division. He later founded Siemens Management Consulting and was executive vice president of the company's medical engineering group in 2001, when he was appointed chief operating officer of the company's U.S. businesses in New York. A year later he was promoted to chief executive of U.S. operations. In 2004, he moved back to Germany and in early 2005 was appointed chief executive of the company. Within months, he sold off Siemen's troubled mobile handset business to BenQ of Taiwan.

Kleinfeld noted that the firm was founded by an entrepreneur, Werner von Siemens, and is rooted in electrical technology. "Electricity was so cool, and it still is today. It is really what led us into all the businesses we are in now." Within a few years of its founding, the company opened offices in London and began building a telegraph system for Russia. "We were formed as an international company, but around German engineering values, and we were able to export that" throughout the world, said Kleinfeld.

He acknowledged that the conglomerate structure has fallen in and out of vogue three times during his career, but said it works for Siemens. "To be successful as a conglomerate, you need to be successful in each of the single businesses, from medical to transportation to communication. You have different competitors in each business, but you need to be better than those competitors."

At the same time, the conglomerate structure provides synergies that can boost the performance of individual businesses. For example, following the September 11, 2001, terrorist attacks on the United States, Siemens researchers who were working on pattern recognition in the company's medical business saw opportunities for the same technology in the security sector. The company's building systems division is now developing pattern recognition products.

Another example of the benefits of a conglomerate, he said, is illustrated by Siemens' 2005 acquisition of the Flender Group, a German-based manufacturer of industrial drive systems. Demand for Flender products is up sharply because Siemens' sales force is now carrying the company's products in 190 countries instead of just 20 where Flender had distribution networks on its own.

The conglomerate works well when dealing with clients that have their own complex structure, he added. He points to airports as a growing business segment with complicated needs, from security systems to baggage handling, cooling and heating, and communications, all areas in which Siemens has expertise. Siemens has even built its own simulated airport near Nuremberg to develop and test airport products, including parking guidance, baggage transport and check-in systems. "We can help our customers understand where the path of technology is going," he said. "That increases value for the customer given the speed of change that's occurring" in that area.

**"Control Freaks" Need Not Apply**

Managers working in the global economy must always think internationally, but act locally, Kleinfeld stated, and he laid out some principles for successful leaders, although each came with a caveat. First, he said, leaders need to "raise the bar" and challenge themselves to deliver outstanding performance and mastery of details, but they must also delegate. "You cannot run the organization as a control freak."

He encouraged self-starters, but only if they also rely on senior managers to protect them from ill-advised schemes. "With entrepreneurial freedom comes the responsibility to think about what's the utmost negative consequence. If you dig a hole in the ship below the water line, you risk the entire ship sinking. That kind of entrepreneurial behavior is not a good idea."

Respect for colleagues and the ability to talk and listen to other members of a team is critical, especially in the age of e-mail. "You don't have the right not to respect the individual even if you are letting that individual go," said Kleinfeld. "There are people who get lust out of firing people. Those are sick individuals and I don't want them in our organization."

He urged executives to work hard and play hard because "they are two sides of the same coin." Kleinfeld also said strong leaders need to maintain their personal independence, but at the same time they must be team players, leveraging the team's resources and information. Finally, he recited what he called his leadership mantra: "Nobody's perfect, but a team can be."