MANAGERISM

The Failure of a World-Class Business
Management Theories that Failed a Siemens Shared Service

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This is the case study of a Shared Service business of Siemens AG over three decades from the 1990s onward: how corporate executives with fashionable management theories, self-oriented managers and employees, wrecked a professional services business. While this experience, because of circumstances, was an exception at Siemens AG, it indicates how executive managers with poor knowledge and understanding of specific business functions may apply one-size-fits-all business strategies and fail to register the negative outcomes. This systemic management failing has relevance for other business corporations.

MANAGERISM FAILS A WORLD-CLASS CORPORATE PROFESSIONAL SERVICE

In the early 1990s, a Siemens Shared Service delivered a first-rate professional service for Siemens: for the global HQ, operating groups, operating divisions and subsidiaries.

Siemens in-house customers chose this Shared Service, rather than external service providers, for its Siemens-customized specialist expertise, inhouse availability, reliability, quality and confidentiality. This shared service contributed to Siemens reputation as one of the world's leading corporations. That was no coincidence: thanks to Siemens pay and conditions this Shared Service attracted staff who were the best-of-the-best.

Beginning in the 1990s the situation of this shared service worsened as Siemens executives with novel ideas were succeeded by executives with even newer ideas. However, in practice each theory overlapped its predecessors. Ideas and habits implanted in the minds of managers and staff are not easily displaced. What is repeatedly preached and practiced becomes an internalized attitude and an automatic process. Consequently, at the operational level, multiple strategies were being implemented contemporaneously, in part, or not at all.

The positive or negative impact of these individual management strategies was inconclusive. Their long-term outcomes – intended or unintended – were seldom quantifiable and side-effects unpredictable. Executive and consultants attributed any

gains in business performance to their latest strategy, but never any business failings. Failures, if registered, were blamed on poor implementation or unexpected circumstances (the unknown unknowns).

MANAGEMENT STRATEGIES AT FIRST SHINE BRIGHTLY THEN FADE AWAY

Every succeeding CEO or Head of Division usually starts by introducing at least one new management strategy. Management consultants do the same. After all, you cannot sell the same theory twice – so every new strategy is soon replaced by an even newer strategy. Line managers and staff become confused, angry, amused, and then lose interest.

Management theories are devised by academics and sold by management consultants to corporate executives. These theoretical concepts are ephemeral – here today, gone tomorrow. However, redundant management strategies reverberate through the corporate organization long afterward and still influence the behavior of managers and staff.

The problem is bigger than a particular theory or strategy. The problem is the sum of these theories, never knowing whether a particular strategy works, is still working, or does not work. Siemens suffered a plethora of management theories between 1980-2010.

THEORIES OF SHAREHOLDER VALUE, CORE BUSINESS, EMPLOYEE EMPOWERMENT

Siemens adopted many theories or strategies including Profit Centers, Economic Value Added, Internal Markets, Culture Change, and many more. The implementation of these management strategies gradually transformed Shared Service into a failed business. It took until 2010 to fail, but its decline began long before. Serious flaws in such management theories were the most significant cause of its demise.

Shareholder Value

During the mid-1990s, the management theory of Shareholder Value became a foundation stone of Siemens management thinking. From then onward, it was not enough for Shared Service to provide a world-class professional service at cost: and Shared Service was re-designated a Profit Center[1], which had to compete within a fictional internal market, as well as against external competitors, and make an acceptable profit. This meant that the primary business purpose of Shared Service was now -- not to render an excellent service to Siemens customers -- but to reach a profit target. All else was secondary.

[1] The Profit Center concept was introduced to management by Peter Drucker, the father of management theories, back in 1945. He later recanted and called the concept "One of the biggest mistakes I have made" and then argued there should be only Cost Centers in a business. This revised message never got through to top managers at Siemens. A profit center is a stand-alone section of the corporation that must generate its own profits and perform its own accounting. Drucker later said that Profit Centers will eventually destroy a business from within.

Previously, in response to growing demand for its professional service from Siemens HQs, Groups and Divisions, the headcount of Shared Service had risen. But now the headcount (payroll cost) had to be cut if the profit target was to be met. Within one year employee numbers were culled from over 100 to around 40, but with the same workload. The morale and loyalty of Shared Service employees declined proportionately.

Core Business

In the early 2000s, true to the idea of extracting value for shareholders, Division managers made two attempts to sell off Shared Services, which thanks to the efforts of its employees had become a highly profitable business. Shared Service staff twice rebelled and the selloffs never happened. Potential suitors were put off by this 'negative' attitude of Shared Service employees – the business's most valuable asset.

However, the writing was on the wall. Division executives still hoped to sell off Shared Service. From then onward, Shared Service managers and staff made their own 'private' preparations for the future. Shared Service managers seemed to artificially inflate costs so that, when the time came, they could initiate an MBO and buy Shared Service at well below its fair value. Some employees devised their own, not quite legitimate, ways of rewarding and safeguarding themselves and the financial future of their families. Shared Service staff had been promised, "Build a sustainable business with good prospects and a bright future for yourself", but not told, "so that we executive managers can sell 'your' business at a good price and pocket a bonus for ourselves."

Employee Empowerment

The hierarchy had been flattened, supervisors abolished, and employees were encouraged to self-manage. Under flexitime, hours of work were no longer recorded. Unsurprisingly, some employees arrived later and left earlier, perhaps with good reason. But these same employees also, somehow, accumulated dozens of overtime hours annually, which qualified them for extra vacation days. Trust in the employees was being abused, as was their trust in the managers.

But this was only the beginning. Worse was to come. Almost all employees, newly designated Project Leaders, could now decide where to place external work contracts worth tens of thousands of euros per year. There was no internal audit to keep an eye on this practice. The four-eyes principle of accounting had been abandoned.

This careless approach to discipline and honesty was introduced by upper management under the guise of Employee Empowerment. Given this new freedom and control over money, some employees began taking unofficial 'compensation' from certain outside suppliers. In fact, work officially promised to qualified and expert ex-colleagues, now forced to work as freelances, was instead diverted and awarded to 'friendly' suppliers, one of whom actually rented offices nearby to serve these 'special' contracts. This sub-standard work was passed on directly unchecked to in-house Siemens customers.

THE DECLINE OF SHARED SERVICE GATHERS PACE

Naturally, over time customer satisfaction declined as did sales revenue, and yet profits still held up, because most staff who left, involuntarily or voluntarily, were not replaced. The decline, at first slow, began to speed up.

By the late 1990s, Shared Service was in a sorry state. Division HQ heard what they wanted to hear, from the telling of the General Manager and Controller at monthly one-hour meetings. Divisional HQ managers were focused on financial performance: on whether profit targets were being reached. Management by Numbers was the name of their game.

DISHONEST MANAGERS AND UNTRUSTWORTHY EMPLOYEES

Managers bereft of values and integrity: concerned more about their personal reputation than the future of the business or the well-being of employees are bad for any business.[2] Employees more concerned about pocketing money for themselves than the impact this has on their colleagues and the business equally so.

One Siemens customer department switched to an external vendor after being overcharged. The guilty employee was never reprimanded. Neither was another colleague who outsourced work to himself and performed it at home, which explained why he never got to the office before 11 a.m. He later left Shared Service and joined his in-house Siemens customer department, thus depriving Shared Service of a major customer and substantial sales revenue.

Similar behaviour explains an annual deficit which another colleague incurred, as an informal internal audit exposed: when called to head office to explain this deficit, he suddenly had heart spasms and could not fly down from Northern Germany. Weeks later, freed again from supervision, he was fit enough to take on single-handedly, for the first time, a complex project worth ten of thousands of euros, for a non-Siemens external customer (perhaps a potential 'private' customer).

And, of course, top managers were never aware of this; perhaps because they wanted it that way. The General Manager of Shared Service did everything to ensure such bad news never percolated up to his superior, to the Works Council or to Human Resources. This was also true when bullying occurred, which brought at least three younger colleagues to tears. The General Manager was informed but took no action at all. Obviously, continuous bullying suffered by others was preferable to disciplinary action that could be registered by superiors and marked against him.

For years, Division HQ managers were unaware that Shared Service had lost many core competences and that services bought externally were sold on internally unchecked. Shared Service had become an agency, a broker, and no longer a producer of

[2] Management theories are good for academics, MBA students and management consultants. However, business leaders must understand their business themselves, know what needs doing and do it. Gianpiero Petrigliere, Are Our Management Theories Outdated? Harvard Business Review, 18 June 2020.

professional services. Most of this, including lack of supervision and discipline, was the outcome of management strategies issued in top-down manner that invariably involved cost cutting and personnel culling to meet profit targets. Expert staff were terminated and not replaced.

The Profit Center concept, inappropriately imposed on Shared Service, was a mirror of the reality of what Siemens had become, and not only its shared services: Siemens was no longer an electrical engineering business but instead evolved into a group of operating businesses within a holding structure. In this way, Siemens top executives satisfied equity fund managers and equity markets by duplicating their portfolio management methods: acquiring future over-performers and selling any under-performers or 'non-core' businesses. To achieve this end, numerous elements of the corporation were recategorized as profit centers.

Accordingly, and taking this strategy one step further, Shared Service had been reformed as a Limited Company and subsidiary of Siemens AG to enable a future sell-off. However, by the early 2010s, Shared Service had gained a reputation for high prices and poor quality. Falling revenues and profits meant the business was no longer sellable. Consequently, when again new executive managers took over at Division HQ, and had to 'actively shape' their division, they decided to close the Shared Service business unit. This was the moment the General Manager and Controller had long planned for. They offered to take the customer database and supplier database of Shared Service as their golden parachute, and then offered this key info and themselves, as new joint managers, to a friendly supplier as their golden handshake.

That ex-supplier immediately began to market itself, also within Siemens, as the 'official' successor to Siemens Shared Service. Other Shared Service employees lost their jobs.

LIABILITY FOR THE DEMISE OF SHARED SERVICE CAN BE ATTRIBUTED TO SEVERAL PARTIES

Firstly, Corporate Executives from Managing Board down to Division Management,
Secondly, the Managers of the Shared Service business unit itself,
Thirdly, the Shared Service employees themselves.

None of these players was held accountable for the failure of Shared Service. This had a negative impact on many terminated employees and their families, but not a single responsible manager felt any consequences.

THE BENEFITS OF CORPORATE SHARED SERVICES

Shared services solutions are a pragmatic, effective, and efficient method to provide common professional services by a specialized unit instead of costly duplication by multiple divisions and departments. Corporate shared services offer a cost-saving, integrated, controlled, and coordinated professional service tailored to and aligned with the overall corporate organization.

LEARNING FROM MISTAKES MADE:

Firstly: Managers must be skeptical of academic management theories, which have short lifespans and unexpected side-effects. Management by numbers is insufficient. Executive managers must be more than preachers of abstract management theory or teachers marking quarterly reports: "This line manager could do better." An entrepreneurial business spirit should be not completely absent, even in a corporate context. A person without a good understanding of 'their' business is merely a business administrator -- but never a business leader.

Secondly: There are always those who think "rules are for fools". Untoward behavior must be noticed, reprimanded and not tolerated. Executive managers must keep a close eye on and walk around 'their' business units. Subsidiarity and empowerment are a two-edged sword: within hierarchies without supervision and discipline of managers and staff, untoward behavior will arise. The four-eyes principle must be strictly observed, especially when money is involved.

Thirdly: Managers who are responsible for the livelihood of others must have behavioral integrity.[3] Too often employees do not trust their line manager. Too often they have good reason. 360-degree feedback of an appropriate kind makes hierarchies more transparent. Employees are not loyal to a business that is disloyal to them, and that will impact the bottom line of financial statements.

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[3] Tony Simons, The High Cost of Lost Trust, HBR, September 2002.
and https://www.researchgate.net/publication/265477346_The_High_Cost_of_Lost_Trust