

Creating value for stakeholders

CLIENT CASE

HOW SIEMENS IS GETTING ALL PEOPLE ON BOARD

Since fiscal year 1998 Siemens has performed the shift from a volume driven enterprise to a company focusing on Economic Value Added (EVA™) – at Siemens known as “Geschäftswertbeitrag (GWB®)”. The communication and application of this approach is supported by Celemi since late 1999.

“Celemi’s Apples & Oranges® successfully supports our efforts to establish a value oriented culture among all employees. That’s what will make the difference in performance in the marketplace!”, says Michael Kutschenreuter, Chief Financial Officer of SBS.

EVA in the center of interest

The concept of EVA is based on the fact that shareholder value is created only if the net operating profit after taxes (NOPAT) is higher than the cost of capital employed. In order to increase their focus on shareholder value, Siemens implemented EVA as the most important performance measure. Vice versa, by moving into the focus of the shareholders, Siemens’ current and expected future EVA performance got closely linked to the share price. Thus the internal steering figure gained an important external dimension, that helps Siemens meet the expectations of the capital markets.

Today EVA is the basis for all major business decisions within Siemens. Consequently more and more employees get measured against the EVA performance of their business units.

Therefore they not only have to identify with the ideas behind this approach but also need to thoroughly understand how to influence EVA performance.

Extensive training and communication on the EVA concept had been done in the company, but still the message did not reach enough people, especially among those who are not familiar with financial concepts.

Since traditional ways of communication apparently were only partially successful, Siemens Business Services (SBS), the e-business solution provider within the Siemens group, started to search for a different approach. They invited Celemi to create a learning program that ensured that all employees were motivated to actively contribute to increasing EVA and improving cash flow.

Communicating a new concept

“In order to truly implement the EVA concept, a company-wide fundamental understanding of financial principles, value flows and EVA as a performance indicator had to be established” says Mr Kutschenreuter.



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In a three month time frame Celemi together with a Siemens project team developed a tailor-made version of the business simulation Celemi Apples & Oranges®. This tool integrated EVA and Siemens' key business figures into Celemi's unique methodology.

In a very hands-on approach teams of four participants are given responsibility to manage a model company. Running that company, they simulate the value flow of a Siemens division's procurement, production & service delivery and sales over several periods.

The results are evaluated by drawing up the profit and loss statement and the balance sheet, as well as calculating cash flow and EVA using the so-called "EVA driver tree" – which is similar to the DuPont model. The team's task is to optimize the amount of tied up capital and improve their business processes in order to be more profitable and thus increase EVA.

In the second part of the seminar the participants leave the model company and apply their newly gained insights to the specific aspects of their own business. They discuss ideas for improvement and action plans based on the latest EVA figures of their business unit.

The demystification of finance

Participants come from the same working environment, yet form cross-functional teams. Everyone discovers the big picture of how the company's value flow really works and gets to know the interdependencies between different departments. The teams develop a common language and

understanding of finance which is immediately put into practice. All participants see for themselves how they, as individual employees, can influence key performance indicators and thus the capital market's perception of Siemens.

"Put into a nutshell, Apples & Oranges demystifies finance: complex principles are clarified within one day without previous knowledge being required. But more important, our people are highly enthusiastic about the program and the gut-feel understanding it provides, especially when transferring the key learning points into the daily business" state Josef Grünwald and Matthias Konrath, leaders of the Siemens project team.

How to get going

The target group for Apples & Oranges within Siemens are all employees who have considerable influence on EVA. The seminars are run by people from within Siemens who have been qualified in train-the-trainer-seminars provided by Celemi and members of the Siemens project team. Ideally the facilitator is a member of the business unit being trained. This guarantees the strongest possible transfer of acquired knowledge into everyday business and a high level of acceptance. Equally important, large numbers of people are reached in a short time making full use of this kind of snowball-effect. Starting in December 1999, within the first six months of the roll-out more than 4,000 people within Siemens took part in the program. By 2007 the number of participants are up to 40,000 and still growing.