

Tuesday July 14th 2009

[Home](#)[This week's print edition](#)[Daily news analysis](#)[Opinion](#)[All opinion](#)[Leaders](#)[Letters to the Editor](#)[Blogs](#)[Columns](#)[KAL's cartoons](#)[Correspondent's diary](#)[Economist debates](#)[World politics](#)[All world politics](#)[Politics this week](#)[International](#)[United States](#)[The Americas](#)[Asia](#)[Middle East and Africa](#)[Europe](#)[Britain](#)[Special reports](#)[Business and finance](#)[About our new page](#)[All business and finance](#)[Business this week](#)[Economics focus](#)[Management](#)[Business education](#)[Economics A-Z](#)[Markets and data](#)[All markets and data](#)[Daily chart](#)[Weekly indicators](#)[World markets](#)[Currencies](#)[Rankings](#)[Big Mac index](#)[Science and technology](#)[About our new page](#)[All science and technology](#)[Technology Quarterly](#)[Technology Monitor](#)[Books and arts](#)[All books and arts](#)[Style guide](#)[People](#)[People](#)[Obituaries](#)[Diversions](#)[Audio and video](#)[Audio and video library](#)[Audio edition](#)[The World In](#)[The World in 2009](#)[The World in 2008](#)[The World in 2007](#)[The World in 2006](#)[The World in 2005](#)[The World in 2004](#)[Research tools](#)[All research tools](#)[Articles by subject](#)[Backgrounders](#)[Economics A-Z](#)SEE HOW SAP CAN HELP YOU BRING
CLARITY TO YOUR BUSINESS

▶ GET CLEAR



Business

The Siemens scandal

Bavarian baksheesh

Dec 18th 2008 | BERLIN

From *The Economist* print edition

The stench of bribery at Siemens signals a wider rot in Europe

WHEN Siemens, Europe's biggest engineering firm, adopted the slogan "Be inspired" in the mid-1990s, bribery was not what it had in mind. But no one can accuse its managers of lacking inspiration in devising ways to pass generous backhanders to corrupt officials and politicians around the world. On December 15th Siemens pleaded guilty to charges of bribery and corruption and agreed to pay fines of \$800m in America and €395m (\$540m) in Germany, on top of an earlier €201m.

There is something almost touching about the candour and trust with which Siemens went about a very dirty business. Take the three "cash desks" it set up in its offices, to which employees could bring empty suitcases to be filled with cash. As much as €1m could be withdrawn at a time to win contracts for Siemens's telecoms-equipment division, according to America's Department of Justice (DoJ).

Surprisingly, considering their crooked purpose, the cash desks seem to have operated on an honour system. Few questions were asked, no documents were required and managers who asked for money were allowed to approve their own requests. Until 1999 Siemens openly claimed tax deductions for bribes, many of which were listed in its accounts as "useful expenditure". Between 2001 and 2004 some \$67m was merrily carted off in suitcases. "There was no complex financial structuring such as you would find among drug smugglers or money launderers," says Mark Pieth, chairman of the working group on bribery at the OECD. "People felt confident that they were doing nothing wrong."

Even when they knew they were doing wrong, they could not break the habit. Illicit payments continued for years after Germany outlawed the bribery of foreign officials in 1999 and after Siemens listed its shares on the New York Stock Exchange in 2001, which made it subject to America's tough anti-bribery laws. Instead of counting money in the office, the firm put cash in special accounts, kept off its books, from which nefarious payments could be made. Much of the dirty work was farmed out. As Siemens half-heartedly clamped down on corruption, managers took ever more eccentric steps to avoid getting caught. When authorising payments, many of them signed on removable sticky notes.

The sums are staggering. About \$805m was paid to foreign officials to help Siemens win contracts over about six years after the firm's American listing, according to the DoJ. And the brazenness of the firm's bribe-paying points to a rotten corporate culture pervasive across Germany at the time. "The great

[Comment \(7\)](#)[Recommend \(85\)](#)[E-mail](#)[Share](#)[Print](#)[Reprints & permissions](#)

Related Items

From *The Economist*

Germany's tax scandal Feb 21st 2008

Country briefing

Germany

More articles about...

Corruption

Corporate misbehaviour

Websites

America's Department of Justice has information on its case against Siemens. Further information is posted by Siemens.

Advertisement

EXCLUSIVE OFFER

SAVE \$298

The Essential
Darwinonly
\$14.95

Special reports
Style guide

Country briefings
All country briefings
China
India
Brazil
United States
Russia

My account home

Newsletters and alerts
Manage my newsletters
Manage my e-mail alerts
Manage my RSS feeds
Manage special-offer alerts
More »

Print subscriptions
Subscribe to *The Economist*
Renew my subscription
Change my print subscription delivery, billing or e-mail address
Pay my bill
Activate premium online access
Report a missing copy
Suspend my subscription
More »

Digital subscriptions
Subscribe to Economist.com
Manage my subscription
Mobile edition
Audio edition
Download screensaver
More »

Classifieds and jobs

The Economist Group
About the Economist Group
Economist Intelligence Unit
Economist Conferences
Intelligent Life
CFO
Roll Call
European Voice
EuroFinance
Reprints and permissions

EIU online store
Economist shop

Advertisement

majority of companies operating in the international market were well aware that German law—and the law of most OECD countries—allowed foreign bribery and even subsidised this,” says Peter Eigen, the founder of Transparency International, an anti-corruption group.

That, at least, has changed. Mr Pieth thinks about half of the 30 biggest German and French firms are being investigated or prosecuted for bribing foreign officials. And Germany has steadily improved its rank in Transparency’s “Bribe Payers Index”, moving from ninth-least corrupt in 1999 to fifth in 2008. Yet the Siemens affair also shows how far Europe still lags behind America in prosecuting bribery. Few close to the case think it would have progressed nearly as far had Siemens not invited in Debevoise & Plimpton, a New York law firm, in the hope of winning leniency from American prosecutors. The lawyers pored over its books and interviewed staff in the largest private inquiry of its kind (and, at €204m, probably the costliest too).

Ellen Podgor, an expert in white-collar crime at Stetson University in St Petersburg, Florida, reckons that Siemens confessed all not to minimise the fine it had to pay but to avoid being barred from business with the American government. “The amount of money being paid is not the crucial factor,” she says. “The crucial factor is not being doomed.” If only European prosecutors could inspire such dread.

[Back to top ^^](#)

Readers' comments

Readers have commented on this article (the window for new comments is now closed).

[View all comments \(7\)](#)



Want more? Subscribe to [The Economist](#) and get the week’s most relevant news and analysis.

Advertisement

plus
2 FREE GIFTS
THE FOLIO SOCIETY

Classified ads

Maximise potential in international trade with RBS - [Read our FREE report](#)

Full-time faculty position

Top graduate school in Lima, Peru searches for Ph.D / DBA graduates from recognized universities.

For more information, [click here](#).

[Manufacturing Excellence Awards 2009](#)

On Thursday we will be celebrating the best that British business has to offer.

[Read more](#) about the UK's premier manufacturing benchmarking scheme and its top 20 firms that have reached the prestigious final.

FSA — PRUDENTIAL POLICY

Associates, Senior Associates & Technical Specialists — Wholesale and Prudential Policy Division

click [here](#) to apply

Amnesty International

[Secretary General](#)

Nottingham University Business School

[Director - Christel DeHaan Tourism & Travel Research Institute](#)

Sponsor's feature

[About sponsorship](#)

