Profile: Joe Kaeser

New Brooms Sweep Clean

The chief financial officer of Siemens explains how implementation of good corporate governance, financial reporting, and auditing practices got his global electrical and engineering company back on track.

Intro

A few years ago Siemens was subject to various compliance-related allegations, including bribery issues. With a massive change in leadership, various settlements, and numerous other measures, Siemens has made a substantially clean sweep. The strategic program Fit4 2010, initiated in fiscal year 2007 and designed to sustainably enhance competitiveness and shareholder value, is based on the values for which Siemens stands: responsibility, excellence, and innovation. In addition, the company strives to attain the highest possible standards of business ethics in order to be ranked among the best in terms of transparency and compliance. In this interview, Joe Kaeser explains how the company has put these initiatives into practice.

Siemens

Siemens AG is a Germany-based company whose core business is electronics and electrical engineering. The company is an integrated technology company with core activities in the fields of industry, energy, and healthcare. Siemens operates with around 400,000 employees in more than 190 countries through six segments: Industry, Energy, Healthcare, Equity Investments, Siemens IT Solutions and Services, and Siemens Financial Services.

See also www.siemens.com.

Firmly address corporate governance challenges

What effect did these recent issues have on Siemens’ overall view and approach to corporate governance?

“By all measures, Siemens definitely has had its fair share of corporate governance challenges in the past few years. Just think about the compliance challenges and the European Commission cartel fines. As a consequence, we had a fundamental change of leadership in the company. If you just imagine that out of the 20 supervisory board members, more than half of them have been replaced, and out of the
11 managing board members of the Siemens company from 2006, only two are still in office, and that is our chief technology officer and myself. We happened to come in at the summer of 2006, just a few months before the whole matter started. So it has been a controlled and massive change in the leadership of the company, and since then we have been setting up huge transformation programs. We established, for example, the corporate strategy initiative, Fit4 2010, to sustainably enhance competitiveness and create value, all based on the Siemens governance stance, which is, ‘Clean business always and everywhere.’ This is the only way. No compromise!

“In the last few years, we have demonstrated that integrity and performance are not mutually exclusive and that clean business is possible in every country. And customers do accept the offers of a company when they are convinced by the benefits of the provided products and solutions. If you have the best offer, you will win the deal.”

**Ensure a long-term focus on real and sustainable values**

*How does Siemens balance the compliance dimension of corporate governance with the Fit4 2010 performance objectives?*

“We need to make sure corporate governance clearly defines the mandatory boundaries, but then—at the same time—it needs to provide space for responsible entrepreneurial behavior. There are a few overarching principles:

- Focus on the longer term;
- Work on the real and sustainable values; and
- Consider the interest of stakeholders.

As mentioned before, compliance is not a program, but the foundation of sustainable business.”

**Define clear responsibility and accountability**

*How does Siemens ensure it can stick to its principles in such a large organization with over 400,000 employees?*

“One of the biggest changes: We made it very clear who is responsible for what. So within Siemens we have clear responsibility and accountability, and we have aligned our organizational structure and our chain-of-command processes accordingly: while the ‘four-eyes principle’ has become more visible than ever in terms of internal controls and segregation of duties, we have also set a clear organizational standard on accountability for the business with the ‘CEO Principle.’

- We have CEOs for all our sectors and divisions, and each of those units also has a functional CFO line;
- The accountability for the business (performance) lies within the CEO reporting line and goes all the way down to the business units (CEO principle); and
- The process responsibility for books and records, internal controls, including Enterprise Risk Management (ERM), lies in the functional responsibility of the CFO.
So we have a separation between driving the business and the respective functional controls, which I think is important. So that is what we have changed all across the company.”

_Do the direct reporting lines from divisional CFOs to the corporate CFO pose any challenges on delivering strategic support to the divisional CEO?_

“It should not at all, the only thing we have changed is that there is now a straight line from the divisional CFO up to the company CFO, and an assignment line to the CEO of the respective unit. One reason we decided upon the straight line (from CFO to CEO) is that this company has no option to fail again. We want to make sure that the primary concept is clear: corporate governance and compliance are the foundation, and then strategy and performance are built on that foundation. And we want to make sure that this order has never been clearer than now. This has been the thought process of Peter Loescher, the CEO, and myself, which we recommended to the board and which has subsequently been approved by them.

“The CFOs are members of the respective management teams of the CEOs, and on top of their primary duties for, e.g., the integrity of books and records, they should contribute to developing the business further. And the CFO part is naturally designed to give valuable impact, since unlike many other ‘pure’ functions the CFO usually combines and manages a series of functions within his/her responsibilities. But I want my CFOs to make an impact not ‘by title’ but by competency, integrity, and dedication, thus performance. If I look into the organization, I see a lot of perfect examples how this could work.”

**Implement internal controls...**

“A performance-driven organization must be accompanied by an integrated risk and internal control system. Siemens has been among the first Foreign Private Issuers to adopt the US Sarbanes-Oxley (SOX) regulation, actually one year earlier than required. There were the COSO standards and there were consultants to help us implement them, and we ended up with a complete set of binders and good documentation. That was the very easy part. Yet the implementation chain all the way down to the last of our 400,000 employees was incomplete, and corporate enforcement was lacking including the resources to perform this.

“Of course we did have risk reporting. But this system focused predominantly on financial impacts. Now we painfully know that we missed some important points, and since then we have introduced a new comprehensive enterprise risk management system. It is important to have a clear best-practice approach on how to audit and how to provide auditors with information on where to have a closer look. A clear mandate and independence are prerequisites for effective audits. We clearly prefer to have a thorough and risk-based review by internal and external audit, rather than a widespread look into the various aspects of our business that is not a really thorough one.

“The lessons learned from the compliance crisis, its complexity and remedial size really convinced me about the need to integrate a comprehensive continuous monitoring system into our risk and control approach. If you have about 10 million transactions per day and even significantly more in ‘peak times,’ you need to have a monitoring system in place which gives the right direction to both the company and the auditors as to where to look for potential violations.”
Joe Kaeser

...complement them with monitoring systems...

“For example, we now measure the effectiveness of certain governance and internal control systems via monitoring scorecards. And our scorecards are being kept current by highly automated and integrated monitoring systems, such as our purchase-to-pay system, which is a massive database that covers all transactions of the whole cycle from purchasing to paying. On that database we do analysis and screening on internal control violations in our ERP systems.

“To give you a number, when we designed the database, we had about 1,500 controls at the beginning. The first run—and we are talking terabytes of information—we had about one million internal control red flags in one month! This sounds like a disaster, but what happened was, if someone was buying flowers for his or her assistant and did not have a purchasing order, the system signaled that because that is against the defined segregation of duties. Many potential violations also had to do with the database, such as current data on our suppliers or our recipients, which needed to be fixed.

“We clearly saw that our monitoring system needed further fine-tuning, because we specifically want to look at the relevant red flags to allow for a meaningful and diligent follow-up. Globally, we have about 10 million transactions every day logged in our ERP systems, and in peak times—such as month’s end—even significantly more. So you have to get a monitoring system which makes sure that you understand patterns, and that transforms your risk-based approach into reality.”

...and follow-up of the violations

“In the meantime, we have come down to potential violations in the single thousands per month, and those we can analyze and track down. We know exactly in which country and in which function—all the way down to the working desk—the red flag was identified. So when a certain employee has five or so exceptions in a row, then we are going to tell him or her, ‘Look, you are going to need some training because you obviously do not understand what needs to be done here.’ For these potential violations there is also an escalation process. The way it works is that those who might have violated internal controls are being notified and, in the first instance, they have to fix it themselves. If they do not fix it within a certain period of time, it will be escalated to the respective manager and eventually all the way up. Every month I get a monitoring list of uncorrected internal control violations, coming up all the way to the company CFO. This is very effective. We have learned it the hard way, but now we know we are very effective and efficient in monitoring internal controls.

“I am also very keen on sharing our experiences with others. I have been talking to colleagues of mine all across the world about our first findings of having more than a million potential violations in the first run, and then they all said, ‘This is terrible, you haven’t learned a thing.’ But then I reply, ‘Look, if you don’t monitor in your company, then you just don’t know how many violations you have got.’ This has been quite an eye-opener for many of the CFOs I talked to. So this has been quite an experience we have had here, and now I am in a position to say that we have an extremely effective monitoring system. And this is what the whole matter is about.”

Broaden your risk focus

*Does the current economic crisis show that the SOX focus on the risks and internal control over financial reporting is too narrow? Is Siemens expanding the SOX lessons to a wider ERM system?*
“In our view, the SOX legislation is, in core, a good process that ensures that we have good-quality financial reporting. Yet a risk management and control system focused only on financial reporting is not enough, because financials are a result of enablers that happened in the first place, such as good governance, strategy, and operational excellence. Trying to manage risk only on the financial results side is too late in the process. Therefore, Siemens has chosen a broad approach for its enterprise-wide risk management and internal control system, focusing on strategic, operational, financial, and compliance perspectives. We actually leveraged this broadened system successfully during the current economic crisis.

“Siemens’ efforts are also externally acknowledged, for example by the Dow Jones Sustainability Index (DJSI), where we rose between 2007 and 2008 from 0 to 93 for compliance, and from 59 to 100 for risk and crisis management. But we did not stop to further improve. In 2009 we earned the best-in-class position in these categories.”

**Systematically determine your key risks**

“We have a very intense and widespread risk management process. First, the responsible managers of the countries and the business units evaluate their strategic, operational, financial, and compliance risks and opportunities, if any, and then they make a priority based on probability and impact, which then goes up to the next level, the divisional or regional-cluster level. And by elevating the risks up, you see how many organizations in the global aspect have named a certain risk as a major, high, medium, or low risk. By accumulating that into the Corporate Risk and Internal Control Committee, which includes amongst others the three sector CEOs, the chief technology officer, our general counsel, and myself, we analyze and discuss which individual key risks or aggregated risk themes are the most relevant and have the highest impact on the company as a whole. And then we decide, based on the effectiveness of already implemented measures, if additional mitigation and remediation activities are necessary to address those risks. This is a continuous circle in which we systematically and comprehensively review the identified risks, the changes in the priority, and the impact on the company.”

*Did Siemens also expand its continuous control database from monitoring only risks in financial reporting to a larger focus?*

“Yes, for sure we leverage our monitoring capabilities based on our huge global database to make sure that we understand where the risks and the violations are, and then send auditors to those monitoring-based patterns. By the same token, we leverage our investment in these IT systems—for example, to also optimize our asset management. The scope is now definitely larger than only internal control over financial reporting. In the meantime, we also commercially offer this IT and process know-how to other interested companies.”

**Align management remuneration with (relative) performance and compliance**

*Siemens also implemented a new management remuneration scheme, based on financial targets, relative performance, and the achievement of compliance targets. Mr. Kaeser explains the main features.*

“Our whole remuneration scheme is cascaded down. We have eight managing board members, and there are about 50 executive people, and then it goes all the way down to the top 5,000. The
supervisory board decides upon the compensation scheme for the managing board, and then it is cascaded down to all 5,000 top managers. The supervisory board first decides upon the scheme. What happens next is, the board sets the goals and the targets for the top 50 managers, and then the top 50 managers consistently cascade the scheme down to the next level and all the way down.

“We made sure that the whole management remuneration scheme is taking not only absolute financial performance, but also performance relative to competitors into account. In addition, we also made sure that a massive part of the top 5,000 senior managers in Siemens are being linked to the achievement of compliance targets. There is a (personal) compliance scorecard for the top 5,000 people in Siemens, which means that if someone has really big issues within his or her division or cluster country, the variable compliance-related pay could be zero. And if someone does outstanding compliance work in terms of governance and internal control, that person can double compliance-related variable pay. A clear link to the incentive system is vital to foster a swift and thorough implementation of corporate governance and internal control. At the end we have to make sure that everything the company is designing makes its way through the organization.”

**Focus on usefulness, practicality, and cost benefit of business reporting**

*IFAC’s recent studies highlighted a variety of outstanding business reporting issues, such as complexity and regulatory disclosure overload. In what direction should business reporting develop?*

“Above all, business reporting needs to have its primary focus on the usefulness of the information. Definitely, we also need to be practical and to keep the cost-benefit considerations in mind.”

**Use the MD&A to outline your company program, targets, and performance**

“In addition to the financial figures, the management discussion and analysis (MD&A) is of major importance for various stakeholders, in particular for investors. Management has to be given the opportunity to outline the investment case of the company without undue risk of legal liabilities. The freedom that companies are granted within their MD&A provides the opportunity to outline our company program and targets. Our financial Fit4 2010 targets can be tracked externally based on our detailed segment reporting (see ‘Reporting on Fit4 2010 targets’).”

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**Reporting on Fit4 2010 targets**

Siemens established the strategic leadership program, **Fit4 2010**, to sustainably enhance its competitiveness and to create value. The program specifies the priorities and performance targets Siemens believes will enable them to achieve their overall strategy, which is to sustain profitable growth by addressing the opportunities inherent in global megatrends. The program contains both financial and non-financial performance measures. The non-financial performance measures are grouped into the categories “People Excellence,” “Portfolio,” “Operational Excellence,” and “Corporate Responsibility.” Siemens describes these four categories as operational “levers” that enable them to achieve their financial performance targets, which can be tracked externally by their segment reporting.

See also [Annual Report 2009](#).
Adopt IFRS as the world standard on accounting

“The world comes together even closer and closer. Therefore, we would very much welcome one global accounting standard. We do believe that IFRS is very well established as a global standard and we definitely would welcome the US adoption of IFRS. I realize that many incidents during the current economic crisis—such as fair values and the like—have been used as an argument to shift this decision towards the future, but it would be disappointing, and not in the interest of a globalized industrial and financial world, if we didn’t use this opportunity to also have a world standard on accounting.”

How was your own experience with conversion to IFRS?

“Siemens has published consolidated group statements in accordance with IFRS since 2006. The conversion to IFRS was one of my first matters as CFO. Previously, I had gained experience in converting the company’s financials from local GAAP to US GAAP in 2001, as preparation for our listing on the New York Stock Exchange. Where the 2001 transformation was like a two-year project with many millions spent on external consulting, the 2006 convergence to IFRS was basically done ‘on the fly’: a very smooth and very swift transition, thanks to our world-class accounting and finance teams.”

Ensure a principles-based approach (of accounting standards)

“In our view it is very important to acknowledge that management is not only responsible for running the business, but also for properly communicating with investors and other stakeholders. And it is essential to leave room for management to describe their business. Therefore, the accounting standard setters should provide sufficient room for professional judgment: define the principles and provide a certain bandwidth for management to portray the economic reality. Finally, regulators have to ascertain a fair enforcement process.”

Counter complexity with rigorous appointments and training

“There is definitely the issue of complexity, also within IFRS, for example the (in)famous fair value accounting. The complexity of accounting standards has serious staffing consequences, because in strategy or in marketing you can do trial and error, but in accounting, there is no compromise. They need to know exactly what they are doing!

“Therefore, we deal with this complexity via an extremely rigorous procedure for appointment of key accounting managers and a very comprehensive training program:

• There is not going to be any head of accounting named in any Siemens company or business in the world who has not gone through the validation process. And depending on the potential impact of that role, they need to have an interview with the controller or myself.

• We also have a strong competence center regarding accounting principles, and a very comprehensive training of our accounting and business administration staff. We actually developed an internal, web-based training program, and more than 200,000 trainings have been passed successfully since the launch.

“So we take competence of our accounting staff very seriously, because we cannot afford any mistakes here. This, by the way, is also true for the finance organization as a whole:
Joe Kaeser

- With the Finance Excellence Program (FEP), we have a highly successful tool to get the best people from the schools.
- Our Finance Training@Siemens makes sure our people are up to speed on all the required skills in their respective area.
- The CFO and Head of Accounting (HoA) validation process is uniquely designed to have the right fit and assurance of competence in functions that are essential to the company.

These processes are benchmarks in the company, and serve as a role model for people excellence."

Maintain consistency...

“We really do believe that maintaining consistency in our concepts and policies is very important. In a world that is currently everything but consistent in terms of financial and economic challenges, we have got to have consistency in accounting standards. In times like this, the basic elements of managing a company, such as governance, accounting, and audit, should stand like a rock. It is the responsibility of the whole financial reporting supply chain now not to be dragged into the volatility of financial crisis and regulatory debates and abandon consistency.”

...and avoid massive changes

“I would hate to see massive changes and then companies struggle to explain the development of their numbers over the years to their stakeholders, or enterprises using accounting changes as an excuse for providing inconsistent information to their stakeholders.”

Don’t use accounting as an excuse for not properly describing your business

Warren Buffett said, “Accounting standards are accounting standards, but management can always explain their view in the accompanying report.”

“I agree, and you should not tempt people to use accounting as an excuse for not properly describing their business (see ‘Example of a bad idea: accounting reserves’).”

Example of a bad idea: accounting reserves

An example of a “very bad idea,” according to Joe Kaeser, is building unsubstantiated accounting reserves in good times and, even worse, reversing them in not-so-good times. This not only violates accounting rules, but also disguises the true operative development of the company, and therefore would trigger rigid consequences.

Maintain fair value disclosure, but recognize its limits

“I think the fair value information is in principle a very useful piece of information in active markets like, for example, certain segments of the financial markets. But in the case of lesser active markets, you always have to consider a trade-off between the relevance and the reliability of fair values. If you look, for example, into the fair value accounting aspects in industrial companies such as Siemens, then it is mostly model-based because there is literally no existence of active markets in industrial asset
management. So it always depends on which economic sector we are talking about, and what fair value does in terms of usefulness of information to describe the ordinary course of business and the underlying performance of the business.”

**So, don’t change the overall fair value rules, but allow companies in specific sectors to apply judgment on how to apply fair value in their specific market situations?**

“Absolutely! Stay consistent and comparable, set boundaries, and then make sure that the business itself describes its ordinary course of business to the public.”

**Specific questions with regard to the audit of financial reports**

“Siemens changed its (external) auditors recently after we did a global audit tender. We had all the big firms bidding for the audit mandate, and through our very thorough evaluation we have seen that all of them are really great companies. They are highly educated professionals. They work at their best. They try to understand the global scheme of things. I would have trusted to rely on any one of them.”

**Ensure a principles-based approach (of auditing standards)**

“Similar to Siemens or any other company, auditors have to deal with highly complex rules, regulations, and standards, also in the area of auditing. In addition to accounting standards, also auditing standards should also be more principles-based, as opposed to rules-based, and provide sufficient room for professional judgment. They should continue to foster a truly risk-based audit approach: pick the most relevant risks and investigate those thoroughly, including the corresponding monitoring systems.”

**Include the MD&A in the audit**

“I already discussed the importance of the MD&A to describe the business for the stakeholders, and in particular for the investors. German law requires an audited MD&A, but the audit has to be different from the audit of financial statements, as management reporting is not to be overregulated; certainly no ‘check-the-box’ auditing. I think it is important to ensure that the auditors have a clear opinion on what works and what doesn’t work in the MD&A, and express a clear ‘yes or no’ statement on the MD&A.”

**Communicate scope and limits of an audit**

“I would not agree with allegations that auditors are generally not looking close enough. Sometimes, if matters go wrong, people turn to the auditors and ask in hindsight, ‘Why didn’t you see that?’ and ‘Why didn’t you do that?’ After the fact is always easy for detecting what went wrong, but auditors also deserve the benefit of the doubt that they have done their job right and issued the right opinion at that point in time. Open, immediate, and transparent communication may help master the challenges. Here is a task for the various standard setters and professional bodies: to clearly communicate with the various stakeholders the scope and the limits of an audit.”
Preserve a minimum number of global audit firms

*We are now down to a limited choice among four global audit firms. What if another firm fails?*

“Well, out of the guts, I feel very comfortable with four strong global firms. With three firms, it all depends. As long as all three have a very global coverage, it probably could be okay; however, it is definitely not my preference. But when it would be only two global firms, it would certainly be too low. Because you have one auditor that auditor needs to be independent, but there is also a large necessity for non-audit-related topics, where you would have a demand for (hiring) a second firm. Then it would be very difficult to change your auditor ever again because there is a natural conflict. Thus, a ‘duopoly’ would be a real problem.”

Provide useful and easy-to-follow disclosures for a broad audience (even if it takes extra pages)

*Financial reports are becoming larger and larger, and it is a lot easier to understand your presentation than your accounts. What are your recommendations here?*

“I agree with you that the financial reports have become quite heavy. Our goal is to provide useful and easy-to-follow disclosures for a broad audience, but transparent and understandable disclosure may require providing more information. The goal is that we keep our stakeholders informed on what we could consider the normal matters of an annual report, and at the same time highlight those aspects which are important for the future of company and/or for specific stakeholders. However, it is essential to have a materiality threshold to make sure that an overload of information does not eventually reduce transparency.”

Build an online database with as much information as possible

“We probably should make sure that there is as much information available to stakeholders as can possibly be provided. If I look five years forward to what the company should do in terms of business reporting, it should provide an online database where you could click on the company in total and you would see certain aspects such as the MD&A, the description of the financial statements, followed by certain aspects which we believe are relevant matters such as sustainability, our financing business, or pension management (see ‘Additional disclosures’).

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<td><em>Siemens also discloses additional information that is important for the future of company and/or for specific stakeholders. Joe Kaeser explains:</em></td>
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<td>“We issue, for example, a sustainability report because the elements of sustainability are important to our company. We want to explain how we grow our company going forward. Then, obviously, there are also several aspects which we believe are helpful for the community in light of the financial crisis. We have, for example, a financing business—Siemens Financial Services—which is small in nature compared to other companies, but with 11 billion Euros on our balance sheet, it is a material part of the company’s financials. Therefore, we want to make sure that people understand how we address pressing issues in sector areas which are currently in the limelight.*</td>
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The same is true for the extensive disclosures of our 20-billion-Euro pension obligations beyond the legal requirements, which have a massive interest from employees who want to know, ‘How safe is my pension?’ We want to make sure that we provide sufficient information on what pension management in Siemens looks like, based on the potential risk and on our responsibility to our employees. So that is why we have 12 pages to describe the pension management at Siemens. Some may think it is too long, but I also see that there are many people who are very grateful to understand what is going on in that particular area. So it always depends, to find the right mix between limiting the number of pages and the responsibility of the company to disclose relevant matters.”

See also the various other disclosures on www.siemens.com.

“We should provide users with a menu where they can click on what they are specifically interested in. That is how the future ought to be, in my view. In this respect, it would also be important to report on a consistent basis, year after year, so that users can follow the trends. We should always explain the developments from last year to this year—what have been the material changes—and what are known trends.”

**Identify the important topics for your stakeholders**

*Which three topics will be of growing importance in your investors’ meeting?*

“As far as the wider stakeholders are concerned, it is about

- Environmental care;
- Social responsibility; and
- Financial value creation.

“For ‘long-term’ shareholders, the first emerging topic is probably regional reporting. Our business is getting more complex and more global because we believe that growth of demand will happen not so much in Germany or the US anymore, but elsewhere in the world. That basically means that there is a new priority on regional reporting. Secondly, definitely the topic of shareholder return criteria, e.g., dividend and share-buyback policies.

“The third topic is how we deal with our infrastructure assets on the balance sheet, based on the assumption that the infrastructure business will grow. Within Siemens we see a change from a product-oriented business to a greater percentage-of-completion-oriented (POC) infrastructure business. There might be a situation where we explain our financial results more based on the lifetime of a project, rather than on fiscal quarters and fiscal years. This is the issue of revenue recognition, and how projects evolve over time in terms of their profitability and their free cash-flow aspects (see ‘Challenge with POC accounting for big infrastructure projects’).”
Challenge with POC accounting for big infrastructure projects

“Imagine a big infrastructure project, let’s say a five-billion-Euro butterfly power plant, with a combined cycle of steam and gas, and maybe even a nuclear power plant in front of it. The project itself looks absolutely OK. Cash flow is 5 billion. There might be a few risks and opportunities which investors might need to know, but it has got an estimated overall profit of five hundred million. But if you look to the five periods individually, you will see the challenge.

“At some point in time that project is going to be booked as an order, which usually triggers a prepayment by the customer. This is followed by more milestones in the project when money is being paid. In the meantime, we do POC accounting, which could go over three to five years and sometimes even up to eight years of time before final acceptance.

“What happens in the first period? We have a booking and we get one billion customer payments. So our accounted cash flow is really good. It doesn’t give a good view, though, on the future working-capital requirements to build up that project.

“The project evolves in period two; there is a POC of, say, two billion and a profit of 200 million, but the free cash flow in this period is maybe minus 500 million, because we need to build up the assets now. Investors will now say, ‘What is wrong with your company? Your free cash flow is so bad, and you have a massive discrepancy between your booked earnings and your cash earnings.’

“And if you do four or five such projects at the same time, you might see massive volatility on assets or on free cash flow versus reported earnings; we have reported earning of let’s say two Euros per share in period two based on POC accounting, but we cannot pay our dividend of two Euros per share in the same period, because our cash flow is zero or negative at that time because we have to build up those assets under construction.

Quite a step forward

“If we have taken these points into account, I think we then have taken quite a step forward in business reporting!”
15 Key recommendations from Joe Kaeser

1. Corporate governance defines the mandatory boundaries. It is the foundation for doing business, but also needs to provide space for entrepreneurial behavior, focused on longer-term, sustainable value creation for all stakeholders.

2. A performance-driven organization must be accompanied by an integrated risk management and internal control system. No surprises, no excuses, no compromise!

3. Enterprise-wide risk management and internal control systems should focus on strategic, operational, financial, and compliance perspectives.

4. Systematically determine key risks in a continuous cycle, and review the identified risks, the changes in the priority, and the impact on the company. Monitor the “operational levers.”

5. Align management remuneration with sustainable performance relative to competitors and, in part, with compliance objectives to drive cultural change.

6. Give management the opportunity to outline the company’s objectives and strategy without undue risk of legal liabilities.

7. Accounting standard setters should provide sufficient room for professional judgment: define the principles and provide a certain bandwidth for management to portray the economic reality; and urge regulators to ascertain a fair enforcement process.

8. Take a rigorous appointment and training approach for accounting staff to counter the complexity of accounting standards.

9. Don’t use accounting as an excuse for not properly describing the company’s business model and performance (as the MD&A also provides the opportunity to do so).

10. In times of crisis, the basic elements of managing a company, such as governance, accounting, and auditing, should stand like a rock in the storm.

11. Fair value information is in principle a very useful concept in active markets, but in lesser active and less liquid markets, it is necessary to consider a trade-off between the relevance and the reliability of fair values.

12. Auditing standards should be principles-based and allow for professional judgment and a more risk-based audit approach.

13. It is important that the auditors have a clear opinion on what works and what doesn’t work in the MD&A, and express a clear “yes or no” statement on the MD&A.

14. Standard setters and professional bodies should clearly communicate the scope and the limits of an audit.

15. Report on a consistent basis, year after year, so that users can follow the trends, and always explain the developments and known trends from year to year.

*We welcome your feedback on these recommendations. To provide us with your feedback, please complete this brief survey.*