

**A Vision**

**F or Europe**

Address to  
Eindhoven Business Week  
Technische Universiteit Eindhoven  
Eindhoven, April 12, 2005

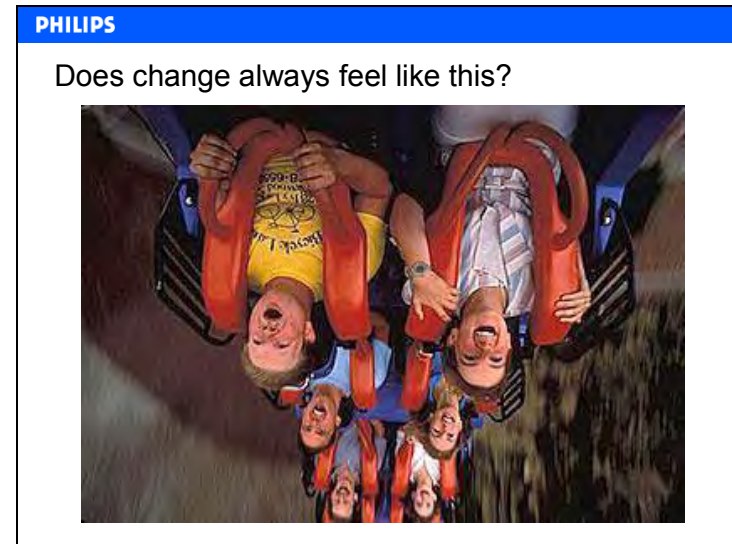
by  
Gerard Kleisterlee  
CEO and President  
Royal Philips Electronics

Thank you so much for that welcome. And may I say that it's both a pleasure and a privilege to have the opportunity to talk to you today.

I'm up here wearing a variety of hats: As CEO of a European based global company, as a former student and present Chairman of Eindhoven Technical University.

And as a parent of children whose future will depend upon this extraordinary sweep of land that stretches from the Atlantic to the Urals, from the Arctic to the Mediterranean. But more than that, I stand here as a committed European.

You know, all of us who live and work in this space, who believe that our fortunes are utterly intertwined with this great continent, are facing enormous challenges.



And I must confess to you that, as I considered what I should talk about today, I was struck by a mixture of envy and concern for what lies ahead of you, as future leaders of Europe.

Envy because, as I'm experiencing every day in my business live, bringing about lasting and effective change is a thrilling journey, better than any white-knuckle ride at EuroDisney or Port Aventura. And more energising, with a longer adrenaline rush, than parachuting or bungee jumping,

although I must admit the last two are something of a stretch of my imagination!

But concern in equal measure. Because the stakes are so high. Your generation is inheriting a continent that is faced with the necessity of enormous change, and I wouldn't want to pretend to you that it's going to be easy. Because it won't.

So what I would like to do this morning is share a few observations of how I think the landscape lies currently, and how I believe we need to shape it for a viable, sustainable future for all of us.

Before I do that, I'd like to take a moment or two just to outline what's been happening at Philips in recent years. I do this for two reasons. Firstly because there are some strong parallels between the development of our company and that of Europe. Secondly, because it's a significant part of my job to tell as many people as possible of the steps we're taking to ensure Philips is as successful in the future as it has been in the past.

Let me set the scene: in its 114 -year history, Philips has grown to become a very large business indeed. Last year we made sales of some 30 billion euros, through our presence in over 60 countries. But we have been doing that already for over ten years more or less. So at that level we seemed to have hit some barriers that keep us from growing successfully beyond 30 billion. Also here, there is a necessity for drastic change.

Everyone here today probably has in their home at least one Philips product. It might not be branded with our name, as it could be the text chip in your TV-remote or a light bulb bought at your local supermarket. For years we've been known primarily for our consumer products. Indeed, many people still think we produce washing machines and fridges, even though we sold that business years ago.



Philips today

And we will continue to develop products that improve the quality of your life and well being, whether at home, at work or on the move.

So much for the commercials, although I can't promise. I've been with the company for over thirty years and while you can take the man out of Philips, you can't take Philips out of the man.

However, the Philips you might perceive and the actual Philips are rather different. We have become a major player in healthcare, providing a range of cutting-edge equipment to hospitals including, as you may well have seen, the latest technology for three-dimensional scanning of babies in the womb. Over the coming months and years, you will see a marriage of our healthcare expertise and consumer knowledge to produce a range of lifestyle and wellness products that help keep us fit, healthy and independent.

PHILIPS

The past is not the future.



So why did I say a little earlier that Philips and Europe parallel each other? Well, to start with, Philips is a 114 years old company, young compared with Europe itself, of course, but nevertheless, for more than a century we have been part and parcel of the development of Europe.

Organisations are similar to people. Over time we tend to accumulate a lot of what I guess we could term as corporate sludge, in much the same way as old arteries clog up with cholesterol. These slow down the body and it works less efficiently than a younger, fitter one. If a long life is to be enjoyed, a radical change in lifestyle and maybe some surgery is required, not for cosmetic purposes, but for fundamental reasons relating to the quality of that life. So, how fit was Philips, and what about Europe?

Secondly, it is Philips' mission to improve the quality of life for people, which is exactly what governments are supposed to do for their citizens. In our case we try to do this by bringing meaningful technological innovations to the market.

Doing this successfully can be a major challenge. And being a European company means that our challenges are, in many ways, Europe's too.

The biggest challenge is the need to become far more innovative and entrepreneurial.

When you possess a heritage as rich as that of both Philips and Europe, it is all too easy to fall into a trap of complacency, believing that what always has been always shall be. But our world is shaped as much by what we don't know as by what we do.

The hunger for knowledge, the unending quest to find new ways of doing things and open up galaxies of fresh opportunity, has been the motivating force behind the ascent of man.

So it should be no real surprise that the concept of knowledge plays a central role in many of our present-day discussions. And the reason why?

There is general agreement that the way in which we organize our economy and its institutions around knowledge and its application will play a crucial role in determining the welfare of our society. It is knowledge that is going to keep Europe afloat – all the more so because other sources of value creation, such as industrial production, are increasingly playing a less important role in today's economy.



However, Western Europe has been depicted sometimes as being locked in the past and in danger of being crushed

between the economic powers of a flexible, dynamic America on the one hand, and, on the other, Asia with its explosive expansion, led by superpowers like China and India.

While this may be too extreme, there is plenty of evidence to support the proposition that Europe needs to get its house in better order. Within a short space of time we have found our competitive position weakening and our productivity, and therefore the growth in our prosperity, falling behind that of other regions. In other words, our society may be at risk of slowly coming to a grinding halt.

We need to be aware that a large ship has a very wide, very slow turning circle – it takes a long time to change direction. While Philips was something of a heavily laden oil tanker in this respect, Europe rather more resembles an entire fleet, where different craft have different speeds and levels of agility.

Actions have been taken to address this. Amongst other things, there was the European Commission in Lisbon in 2000,

with its ambitious aim to transform Europe into the leading and most dynamic economy in the world within the space of ten years. A few months ago there was a rather disappointing mid-term review of these very ambitious aims. It showed that in many respects we have only fallen further behind.

So what exactly is it that is hampering our progress? Opinions on this are divided, but what we do know is that certain aspects of our European society and our culture are an issue here. Research carried out recently by the European Commission into entrepreneurship shows, for example, that there are huge differences in this field between Europe and other regions in the world.

More Americans than Europeans seem to have entrepreneurship in their blood. More said they would prefer to be their own boss. Most Europeans prefer the idea of a fixed income and the security of a permanent job to the many opportunities associated with being an independent entrepreneur.

What is important to Americans is to make the most of the chances and opportunities that arise from an entrepreneurial approach. We, on the other hand, often let ourselves be guided by a fear of change. Our behavior is characterized by the avoidance of risk.

There is a certain irony in this preference for security among Europeans, especially when one considers that this is increasingly a false sense of security. In the current economic climate, and in view of the speed at which major transformations are taking place, certainty and security – at least in the material sense – are more a thing of the past. Clinging to these values is more like maintaining an illusion, and thus holding back desirable change.

So how should we proceed, then? First and foremost, I think we need to organize ourselves more around innovation. And, amongst other things, innovation requires a different way of thinking – entrepreneurial thinking.

We need a greater sense of urgency in liberalizing the way business is conducted. Europe needs to find more flexibility in the way it regulates commerce and in how it stimulates research and development. And it must seek new pathways to liberate the spirit of the European entrepreneur.

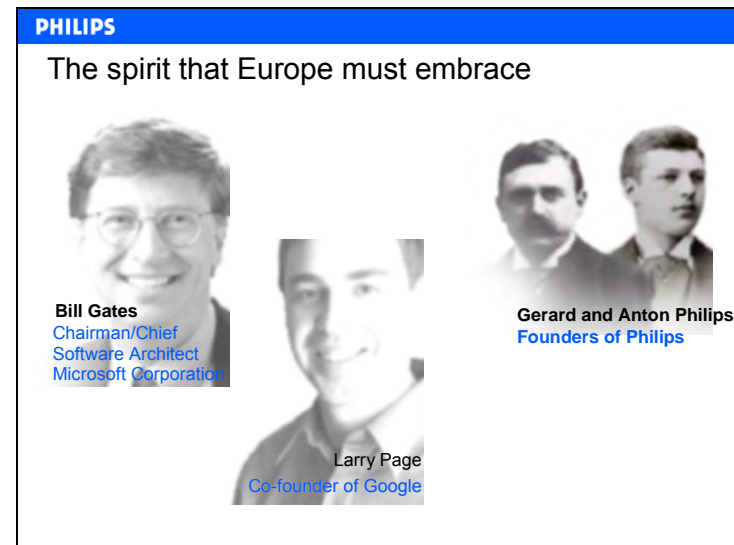
Now some believe that Europe doesn't possess any such thing. But I reject this negativity.

Think for a moment on the audacity and acumen of that merchant class which circled the globe. The Dutch, Spanish, British and French all built economic empires through both military and economic bravery.

Reflect on the technological brilliance that brought key engines of economic growth like the train, the radio, television and telephone. Europe invented cinema, the motorcar, innumerable inventions and innovations, which have shaped the world in which we live.

Does anyone seriously believe that the spark, which fired these inspirations, is extinguished? I, for one, don't.

But in the modern world, a mere spark, even with individual commitment, is no longer sufficient. Governments must help it catch fire both with direct financial support and a reduction in the bureaucracy that can all too easily extinguish innovation at birth.



What do people like Bill Gates, Richard Branson, Larry Page and indeed men like Anton and Gerard Philips have in common? Above all, they all became famously successful because they spotted opportunities that others did not see and pursued these energetically and with determination.

Sometimes these were opportunities that had been dismissed by others as absurd.

And that may well have been the key to their success. Albert Einstein once said: "If an idea does not seem absurd at first sight, then there is no hope for it." In other words, it is precisely this out-of-the-box thinking that can uncover unprecedented and very lucrative opportunities. If you continue to think within the existing parameters, you will create more of what already exists, but if you are able to look at things in a new light, you are already well on the way to innovation.

The old saying that you can't teach 'an old dog new tricks' has some truth. I am not so sure about its continuing resonance as the pace of technological change has demanded that middle-

aged workers learn new skills if they are to survive. However, I am certain that it is down to you, the next generation of leaders, influencers and innovators to embed entrepreneurial and innovative thinking in Europe's heart.

Thinking in this way does not come easily to everyone. From our experience at Philips with the many graduates we bring into the company each year, we look forward to the day when they arrive with a greater awareness of entrepreneurship and a hunger to challenge and to change.

This new thinking extends to the way we all work together, so that complementary skills, talents and resources can forge strong marriages across barriers such as frontiers and disciplines. Philips is heavily involved in cross-border and inter-discipline co-operation between universities, other knowledge institutes and businesses and we reap the benefits of this every day. Indeed, these relationships could be a classic example of the new innovation structures that Europe needs.



The same is true of our own High-Tech Campus in Eindhoven. It is on the way to becoming a hotbed of new activities and innovative businesses, where the level of cross-pollination generates an almost tangible enthusiasm. Here, experienced researchers suddenly feel rejuvenated, revitalized by so much scintillating innovative energy. This is the very kind of spirit that Europe needs.

Of course, adoption of such an approach on a pan-European basis requires the support of governments in Europe. It is

they who are faced with the not-so-easy task of promoting the desired new climate. In many countries, governments are already actively working on this. At some stage in this process they will have to tackle what is perhaps the most difficult task – to make the labor markets more flexible. Minimization of bureaucracy is also high on the agenda of the governments of many of the European member-states.

I am well aware that I am probably talking to some who in years to come will be occupying positions of power and influence. I hope that, by then, the process of the liberalization of European entrepreneurship will be irreversible. If not, may I take this opportunity to urge to you to accelerate the process as the number one item in your in-tray.

So far so good, but how do we go about fulfilling on our mission? That requires a well-articulated vision, a stated ambition and a clear strategy. Many of the issues we had to wrestle with are similar to those we recognize in confronting Europe as a whole.

What realistic goals can we set?

What are our strengths and weaknesses?

How do we exploit our heritage without living in the past?

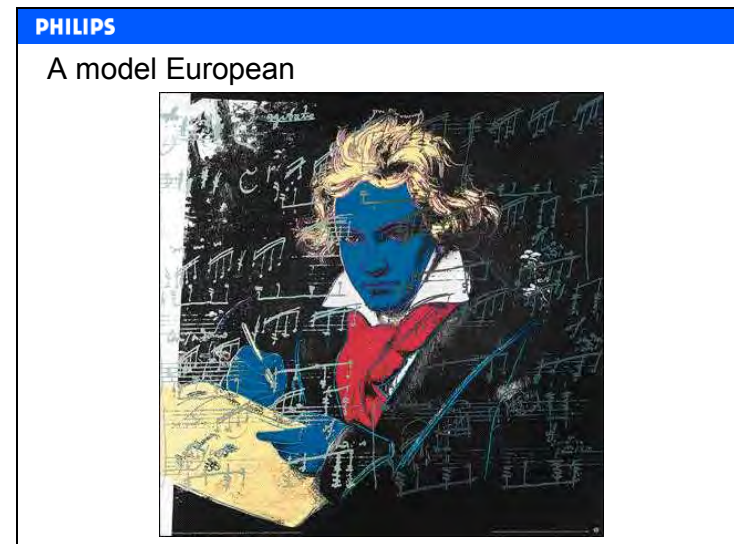
How do we structure ourselves so as to give us the very best chances of achieving our goals?

Knowledge. Design. Innovation. These are the areas where Philips and Europe must carve out a new economic reality. But we need to ensure that politicians, business people and the educational world work together to bring about a knowledge revolution. A graceful revolution that embeds once and for all in the European mindset the kind of dynamism that has driven the tiger economies of the east and the exuberant entrepreneurship of America.

For Philips, our vision is to be a leading solutions provider in the interlocking areas of healthcare, lifestyle and technology. In order to engage our people and our customers, we have

repositioned the Philips brand around the promise of “Sense and Simplicity”,

As for Europe, the EU has stated as its ambition to become the most dynamic economy of the world by 2010. But in order to achieve this we need more engagement, more momentum, more enthusiasm. What is the brand promise for Europe?



The unofficial anthem of Europe is Ode to Joy, the choral element of Beethoven’s ninth symphony. He worked almost

exclusively in Austria, was born in Bonn at a time when Germany didn't exist, while his family hailed originally from Malines in Belgium. So who may claim him for their own, if not Europe? And yet I'm not sure it is accepted that there is such a thing as a European.

This must change, and Europe can look to business for inspiration. As we changed, our brand, that is, what people perceive the name Philips stands for, no longer accurately reflected the direction and make-up of the group. We had to change those perceptions. So we fashioned a new brand positioning to explain to all those stakeholders who are important to our future precisely what we're about and where we are headed. Some of you I hope will have seen our recent series of advertisements, whether on TV, posters or online.

My point is that perhaps the time has come for Europe to start branding itself. On the 29<sup>th</sup> of next month, the French hold a referendum on the new European Constitution. Don't you think it would be easier for them to understand the concept of

Europe if it had what we might call a clear brand identity like France itself has?

I am certain that business can give a strong lead to the politicians, diplomats and bureaucrats who make up the driving force of European integration. We all know that winning the attention of customers and the support of a wider group of stakeholders are pre-requisites of success.

If consumers don't understand what you are and what how products benefit them, then you're doomed. If investors, regulators and industry observers cannot comprehend what your business is about then you risk losing their support.

Companies spend fortunes on addressing these audiences. Estimates are that in 2004 the global spend on advertising was 370 billion dollars. Only 15 countries have a larger gross domestic product.

So Europe must learn from business, and engage with all its stakeholders. It needs to forge a unified message of what it

stands for, what it brings to its people ... and what it believes it can become.

I would like to conclude, if you'll permit me, by addressing a few words to you directly about your role in the future of Europe.

We read a great deal about how your generation is indifferent to politics and even less interested in Europe.

But by your presence here this week you clearly place yourselves in a different category completely, one that proclaims itself committed to an informed debate about the speed and direction of the European project.

However, attending these events is just the beginning. Discussions must eventually give way to actions. So I would like to encourage you become activists in the great quest to forge a new Europe. Every movement needs its champions, those who see what the future can be and encourages others to share that vision.

This vision must cover critical and controversial issues. Yes, it must address the geographical and political interpretation of the theme of this week: how big can and should Europe be? But it must also satisfy the urgent need for all citizens to understand what Future Europe might look like, and how it may be reached.

The dynamic of change always comes from those who want to own the world, not from those who already possess it. It is for you, the generation that will inherit the legacy that mine will leave behind, to start shaping the world, the Europe you want. And it needs to start right now.

I wish you the very best of luck. And thank you very much for listening to me so attentively.

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