

First 100 Day Report Card: Frans Van Houten, CEO Philips

By Robert Hargrove

What does the new CEO of Philips, Frans van Houten, have in common with Dutch explorers of the past, such as Henry Hudson who sought to find an easterly passage to Asia, or Willem Janszoon who recorded European landfall on the Australian continent?

These hearty Dutch explorers each pursued an Impossible Dream in service of a cause, even though they didn't have modern navigation equipment and there was no simple or obvious map to follow.



Mr. van Houten, who began his first 100 days about four months ago after taking over from a former client of mine, Gerard Kleisterlee, is intent on another Impossible Voyage of Discovery, even though he doesn't have all the answers when starting out.

Just like Henry Hudson was looking for a faster route to the orient, Mr. van Houten is looking for a faster route to making Philips an entrepreneurial innovator.

He is sailing the 100 year big Dutch conglomerate, Royal Dutch Philips, through new and uncharted waters, marked by blue ocean strategies and game changing innovation, as well as a culture to match.

Van Houten has stood strong and firm on the quarter deck sounding the tone for his Impossible Future, while all around him a fierce storm is brewing. Since taking over as CEO of Philips, Mr. van Houten, while lauded in for his vision, has encountered stone faced, near brutal scrutiny by the media and investment analysts due to the fact that the company has lost 1.3 billion euros and the stock has dropped almost forty percent under his short watch (the result of inheriting a top-heavy company with complex, slow bureaucratic ways, and a slow recover).



So far, Mr. van Houten has weathered the storm with sturdy Dutch composure and grace, but inside he must feel under tremendous stress and pressure.

Permit me a flashback. I remember landing in Amsterdam not long after Mr. Kleisterlee took over as CEO of Philips to begin an assignment Masterful Coaching had been given which involved coaching Philips' top executives. As I drove from the Schiphol Airport toward the city, I saw a billboard that said "Philips, we make things better." I was frankly shocked. We were living at the dawn of a creative economy and age of innovation, and the company's advertisement was "We make things better"? (Mere incremental improvement?!)

I tried to talk to Mr. Kleisterlee about going for an Impossible Future based on game changing innovation and entrepreneurship, but he was more focused on restructuring the company. I had a gut level feeling that, when I left the corporate headquarters that day in the private car which Mr. Kleisterlee generously offered, the company was at the beginning of a long, slow decline.

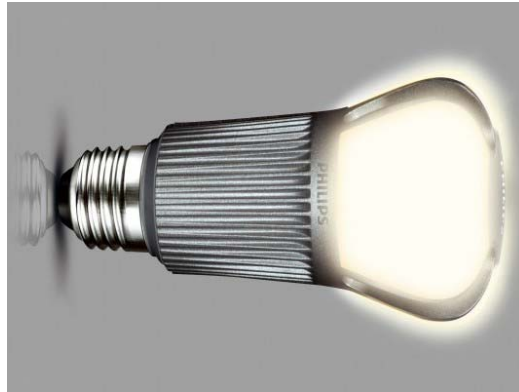
Now let me fast forward to the present. I had gotten wind of that there was a new CEO at Philips and decided to study up on him. I was absolutely astonished to hear that Mr. van Houten was preaching the gospel of *disruptive innovation* in his first 100 days, while at the same time, making some very tough business decisions and reinventing corporate culture with a new set of guiding principles. I was delighted to find out that the company's slogan shifted from "We make things better" to "We create better ideas."

Mr. van Houten gets his message through to his far flung organization in part by paying homage to the company's entrepreneurial founders, Anton and Gerard Philips, who set up a small lighting company in Eindhoven 120 years ago, a poor town with only 4,500 inhabitants. Today, it's the seat of a diversified industrial company with 25 billion euros in revenue and operating in over 100 countries.

Says Mr. van Houten, "Innovation has always been our life blood. I intend to drive innovation with more intensity to help us win new customers." He contin-



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ues, “At Philips, we want to excel through customer intimacy, innovation, and speed. Philips has deep research and engineering competences and we are constantly looking to attract the brightest talent to do amazing things together.”

Mr. van Houten’s response to stone-faced, straight-talking media critics (less interested in his transformational agenda than in how he is going to get the company back to profitability) has been unflappable. He never steps back from his vision and he provides straightforward, factual answers. He explains that Philips is in the middle of making a shift from a staid consumer electronics maker to a diversified industrial company.

According to Mr. van Houten, the company has, in fact, enjoyed a higher than GDP growth rate of 5%, and its growth engines for the future (Healthcare, LED Lighting, and Consumer Living) are surging. He has declared (going out on a limb) that by 2013, based on his Accelerate Change and Performance Program, the company will achieve 4% to 6% accelerated growth (or higher), and a return 12% to 40% EBIDITA (earnings before interest, taxes, depreciation and amortization.)

MR. VAN HOUTEN'S FIRST 100 DAYS REPORT CARD

In my book, *Your First 100 Days in a New Executive Job: Powerful First Steps on the Path to Greatness*, I say that a new leader must accomplish three things in his first 100 days (and going into the first year). These then lay the foundation of success during the leader’s tenure: 1) Establish a long term vision; 2) Attack ‘A’ level priorities; 3) Secure early wins that build personal credibility and momentum, as well as signal new behaviors. I hesitate to throw flowers in Mr. van Houten’s path, but I would have to say he has been very successful in each of these areas. Here is how I would grade Mr. van Houten (admittedly with limited inside knowledge.)

Grade A ✓

1. Establish a Long Term Vision of an Impossible Future.

In the great city of Amsterdam, there is the revered Westerkerk, Church of A'dam, the place where Rembrandt has been buried. In the church, there is a bell, the heaviest in Amsterdam, and when it rings, it does so with a tone that is enchanting, sovereign, and arresting. Mr. van Houten has sounded the tone of his vision of transforming Philips from a top-heavy conglomerate into a fleet-footed, entrepreneurial innovator in a way that is just as sovereign, enchanting, and arresting as that bell. Mr. van Houten has said, "Our goal at Philips is to pursue innovations that inspire us

and help us overcome major societal challenges, such as an aging society, the rise of chronic diseases, the need for energy efficiency and a sustainable world, and consumers' growing desire to lead a healthy and exciting life."



Grade A ✓

2. Attack 'A' Level Priorities that Lay the Foundation of Long Term Success.

Obviously one of Mr. van Houten's 'A' level priorities is to address economic performance, given a \$1.3 billion loss in the second quarter. He made a number of fast moves designed to make Philips a more entrepreneurial, lean company with higher gross margins. This included more disciplined use of capital (cash on hand) through a stock buyback, and a saving of 500 million euros as a result of a regrettable 4500 person layoff. He instituted a new Philips' program called "Accelerate, Change, and Performance Improvement" that includes such things as attacking operational issues so as to be cost competitive. Also, consistent with his vision, he committed to take some of these savings to make some big, long-term investments in R&D.

Grade A ✓

3. Secure Quick Wins that Build Personal Credibility & Momentum.

One of the first things Mr. van Houten addressed was building a team of 'A' players consistent with his high growth through acceleration Impossible Future. He added new faces to his executive team with strategic intent. He added a new head of strategy who is fond of game changing ideas; he brought the CEO of China into his board (a bellwether of his intention to further exploit the growth in emerging markets) and he hired a new head of HR Carole Wainaina, born in Kenya, to help accelerate the needed culture change. Perhaps the most important early win was initiating a spin out joint venture of Philips' ailing flat screen TV business (a business it invented) with the Taiwan company TPV. This move would allow Philips to keep its brand name against Samsung and LG, while letting the TPV do the heavy lifting.

MY COACHING SUGGESTIONS FOR CEO VAN HOUTEN

Find a masterful coach who can give you power and velocity. When you are sitting on the top floor of the Philips HQ in Amsterdam, the winds blow cold and strong and it can be very lonely. You have a sturdy, Dutch professional countenance and are holding your own, but personally you must feel tremendous

stress inside your own skin. I am betting that to carry on, you are going to require a high level of personal support, the kind a masterful coach can provide. You need a coach who can return you to yourself, your vision and action when things fall apart. You also need to recognize that, no matter how smart or well prepared you are as a leader, when walking into such a big job, everyone reaches their limit. At that point, you either transform yourself as a leader or you stop making progress. *Self (leadership) transformation* is always good, but it just won't get you there fast enough. A masterful coach can play a powerful and profound role in accelerating this process.



Communicate your vision and transformation agenda with every breath you take. You have put your vision out there and it's starting to get some traction, but you probably have a long way to go. You have to communicate your vision with every breath you take over the next year, versus fall into the trap of thinking "been there, done that." As a case in point, this past week, a Masterful Coaching

business development partner went to visit the CEO and HR manager of Philips (in an Asian country) to talk to them about our new program, *Game Changers™* (how to create block buster business models, products, and services by design). The CEO said, "Game Changer is too big for us here, (red flag) it's a home office project." By the way, I like the way you talk about "our new culture," as if it already exists, using examples to illustrate it (i.e., your China team doing its own customer intimacy program, R&D, and product development). This will help keep your organization from getting trapped in the whole discouraging complexity of a ten-year culture change program.

Create leadership (management) structures that support innovative behavior. Your vision is crystal clear, as well as your shorter term goals (like 12% to 40% EBIDITA in 2012-2013). Yet, what about setting some one year Impossible Goals that will really encourage entrepreneurial innovation, the kind that accelerate high revenue growth and profit growth? *Suggestion:* Ask each of your business unit leaders to present two ideas with blockbuster potential (business model, product, service) by the half way mark of 2012-2013. This could really charge up your organization. Also, why not borrow from Google? Larry Page asks every person at Google to set an impossible goal each quarter, one they feel passionate about and that they spend 25% of their time working on. I am told this led to the Android operating system.



In closing: I especially liked one of your remarks at the Philips' Innovation Experience. In your own words: "What I also want to emphasize is that innovation is more about passion and believing in ideas than just about pouring in money. As Steve Jobs said: 'Innovation comes from people meeting up in the hallways or calling each other at 10:30 at night with a new idea. It's ad hoc meetings of six people called by someone who thinks he has figured out the coolest new thing ever and who wants to know what other people think of his idea.' He is right. For innovation, we need drive, we need entrepreneurship, we need dynamism. That's the mentality we need to foster."

I hope you are very successful,

Robert Hargrove, CEO, Masterful Coaching

+1 617-953-5252, Robert.Hargrove@MasterfulCoaching.com