Disrupt or be disrupted!

Leading change in a fast changing and increasingly complex world

Inaugural lecture by

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(spoken word prevails)

On the acceptance of his position as

Distinguished Professor of Practice in Business

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Department Marketing

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Introduction

Mr Rector Magnificus; members of the Board of the School of Management and Economics; ladies and gentlemen professors; ladies and gentlemen of the scientific staff, dear friends, family, colleagues and others present during today's ceremony…

I am standing here today before you as the first Professor of Practice in Business. I consider this an enormous honor and privilege.

So how does a professor of "Practice" differ from a professor of "Theory?"

I am pleased to quote Nobel prize-winning scientist Manfred Eigen: *"In theory,"* he said, *"there is* no *difference between theory and practice. But, in practice, there is."*

The "professor of practice" is a new concept in the Netherlands. It seeks to complement deep, proven academic rigor with practical experience. This position will be involved in teaching; adding value because of special practical and/or business experience and preparing students for their entrance into the labor market. Furthermore, the position has been created to contribute to the impact of research and applied science on society. Tilburg University has expressed its intention to appoint more Professors of Practice in the years to come in various academic fields.

As the first Professor of Practice in Business, I am committed to helping students contextualize theory and preparing them for their working lives by sharing practical, real-life examples. This involves learning about success – but also failure. I will be sharing with students my "lessons learned" and I greatly looking forward to being challenged by students on some of my own conventional beliefs.

After all, "docendo discimus": *we learn by teaching*.

For today's address, I want to share with you my experiences working for nearly three decades in multiple businesses, countries and functional areas. All with one company – Royal Philips; the last 7 years as a member of its Executive Committee.

Philips, has endured many ups and downs over the last 127 years -- and has lived to tell the tale.

But how?

I believe it's because Philips endeavored to embrace and lead ***change*** as the only constant factor in (business) life and because it had the courage to challenge its own conventional beliefs and reinvent itself multiple times.

Today I want to share with you my views on what it takes to lead in a fast changing and increasingly complex world.

Ladies and gentlemen, I'll share many opinions in my address. These are my own and I take full personal responsibility for them.

The fourth industrial revolution

Our world is changing at unprecedented and, it seems, accelerating speed and on multiple dimensions - geo-political, economic, social, and technological. This is creating new realities for all participants in society. Conventional beliefs and paradigms are being challenged and disrupted. In business, new technologies are impacting both the supply and the demand side. Today's so called super star companies (such as Apple, Google, Facebook, Amazon, Alibaba and AirBnB), have chosen to "own" technology platforms rather than physical assets. For the retailing industry and hospitality industry, it was once considered key to success to be located at so called "triple A locations". The same went for the hospitality sector. Today, the world's biggest retailer has no shops and the biggest accommodation provider owns no real estate. By the way, the world's biggest taxi firm owns no cars. Conventional beliefs in business are being challenged.

We're in what Professor Klaus Schwab, Founder and Executive Chairman of the World Economic Forum calls the "Fourth Industrial Revolution."

The First Revolution took place in the 18th to 19th centuries in Europe and America when rural societies became industrial and urban, with iron and textile industries developing fast.

The Second took place between 1870 and 1914 and involved a period of growth for pre-existing industries and the expansion of new ones, such as steel and oil. It used electric power to create mass production. This is the period when Philips and Tilburg University were founded.

The Third Industrial Revolution, or the 'Digital Revolution', started during the 1980s and involved the advancement of technology from analog, electronic and mechanical devices to the digital technology available today.

The Fourth Industrial Revolution builds upon the Digital Revolution, and represents new ways in which technology becomes embedded within societies and even the human body. It is marked by emerging technology breakthroughs in a number of fields, including robotics, artificial intelligence, nanotechnology, quantum computing and biotechnology.

Professor Schwab argues, rightly in my view, that established companies must rapidly embrace the fourth industrial revolution if they are not to be disrupted or destroyed by it. It offers great opportunity for new entrants as well as for established companies that choose to "disrupt themselves" and the businesses or industries in which they operate.

Let me share some substantiating facts with you: the average life expectancy of a S&P 500 firm has dropped from 60 years in the fifties of the previous century to below 20 years today and keeps decreasing.

Indeed, it seems scarcely believable that once-great names; huge companies with great history disappeared.

The list is long. In no particular order: Compaq. Nokia. Enron. PanAm. Woolworths. Kodak. Circuit City. Fokker, Vroom en Dreesman, Blockbuster. MCI Worldcom. Lehmann Brothers.

What occurs to me is these companies or businesses were not just big in business, but they were significant in *people's lives*. A great part of my own family's life was recorded on Kodak film. I went shopping with my parents at V&D, my first mobile phone was a Nokia and during many of my early business trips I flew in a Fokker airplane.

Occasionally businesses go bust because of catastrophic mismanagement or because their management gets greedy beyond conscience – Enron and Lehman Brothers are prime examples.

But the vast majority just miss shifts in the world around them. They overestimate themselves and underestimate competition or the impact of innovation. Very often, the leadership of these companies suffer from what I call "deadly beliefs"; persistent convictions that dominate decision-making and prove, ultimately, to be false.

IBM, enormously prosperous thanks to mainframes, failed to anticipate the astonishing boom in PC sales and was missed the fact that the intrinsic value of a PC lays in its operating system and its microprocessor. As a result, Intel grew from being the 10th biggest manufacturer of semiconductors to the undisputed Number One – where it has stayed ever since. Microsoft also prospered at IBM's expense.

Blockbuster, once a giant, desperate to preserve the video-rental business on which it was founded, failed to anticipate or fulfil the demand for Internet-delivered movies. Netflix is now the celebrated success.

The management of Blackberry was convinced about the superiority of the security of its devices when the right option would have been to enter the smartphone market. We all know what happened: Apple and Samsung took the market.

Today it's hard to imagine a world without Google. Or Apple. Or Heineken. Or BMW. Or Philips. But as these examples show, we must be aware that it *could* happen. We *could* be disrupted. Indeed, innovation consulting firm *Innosight*, forecasts that around half of the S&P 500 will be replaced over the next 10 years…

Just think about the trends that will disrupt the car manufacturing industry; connectivity, mobility concepts (like car sharing), autonomous driving and electrification. Just imagine the challenges for existing companies like BMW, Ford and, Mercedes – as well as the *opportunities* for newcomers that don't have to carry the burden of a legacy footprint to deal with the consequences of technological obsolescence. Imagine also the promises these concepts offer in the context of fighting climate change and reducing traffic jams around the globe.

Allow me –against this backdrop- to go back to the Philips story. I'm going to avoid the huge temptation to look too deep into our history. But will start with a brief recap.

The Philips story

Philips was founded 127 years ago by a father and two sons: Gerard, Frederik and Anton. They proved a brilliant combination; Frederik providing the capital, Gerard being inventive and Anton entrepreneurial.

They took an early bet on the lightbulb business, succeeded, and expanded into glass vacuum tube technology including radio valves, television sets and x-Ray tubes. Early on they also expanded geographically.

The combination of technological innovation and entrepreneurship led to rapid growth and turned Philips into a fully diversified industrial conglomerate with operations in more than 150 countries around the world, and a 20% share of the global electronics market in 1970s.

Today, nearly all of the Philips business is in health technology. We have a range of products for nutritious food preparation and our air purifiers clean air of pollen and pollution to help prevent respiratory diseases. We have parenting apps that help new parents monitor their baby's health and advanced digital pathology solutions to image guided therapy systems. From MRI scanners to Ultrasound devices – with all the software and artificial intelligence in between.

Today I would like to take you back to the start of *this* decade to explore how Philips decided to disrupt itself and transform from a diversified industrial conglomerate to a focused player in health technology.

Our starting point for transformation

In 2011, when I joined the Executive Committee of Royal Philips, we had much going right for us. First and foremost we had talented and committed people. We had a strong brand (especially in consumer electronics and lighting) and many leading positions in markets and businesses across the globe.

But…

Key businesses were commoditizing fast; some required huge capital investment whilst being confronted with declining margins to due steep price erosion driven by increased competition.

Like most companies, we kept asking ourselves “uncomfortable questions” such as:

- Is our business performance in line with that of peer group companies?
- Can we justify our portfolio based upon real synergies?
- Can we build or buy all capabilities required to win in all of our businesses fast enough?
- Do we have sufficient financial strength to make the investments required in each of our business to compete successfully in the long term, not least after we have returned value to shareholders?
- Are our Capabilities, Assets and Positions only real when we keep the group together?

As we looked at the world around us and assessed our businesses, one stood out: health technology.

We knew that the world population would continue to grow from around 7 billion to 8.5 billion by 2030, 9.7 billion in 2050 and 11.2 billion in 2100.

We were also aware that in the first 50 years of this century, the proportion of the world's population over 60 years would double to 2 billion over the same period.

It was clear that a growing and ageing population would suffer a huge increase in chronic, non-communicable diseases like heart disease, cancer and diabetes. Already today, one in three people will be diagnosed with cancer during their life time (I am one of them); more than half a billion people will suffer from respiratory diseases; an estimated one billion people will suffer from hypertension and 400 million people will suffer from diabetes. Staggering statistics!

As a consequence, we face huge pressures in virtually every health system in the world as healthcare cost as a percentage of GDP continues to rise. The largest part of global healthcare budgets is being spent on diagnosing and treating people. Healthcare is a misnomer: ‘sick care’ is usually more appropriate. We have reimbursement systems that do not favor preventative care. Put simply, healthcare systems are in crisis. We have to change the game and apply health economics to change the game.

On September 25th 2015, the United Nations adapted a set of goals to end poverty, protect the planet and ensure prosperity for all as part of a new sustainable development agenda. Seventeen Sustainable Development Goals (SDG’s) were formulated. Among these, SDG 3 aims to *ensure healthy lives and promote well-being for all people at all ages”.*

This doesn’t only constitute a formidable global challenge but also an enormous business opportunity.

The Philips during the fourth industrial revolution: the choice for health technology

So, we determined to become a focused health technology company. We had strong starting positions. We were a trusted brand in both the hospital and home. And that’s important, because healthcare involves both. It meant we could start to connect the two and start approaching healthcare in a holistic and integrated manner. We call this the 'health continuum'; – from healthy living and prevention, through effective diagnosis and treatment, to home care – where the cycle to healthy living could be restored again.

The transformation

The Philips transformation in the last decade has been profound. We have spun-off our landmark audio and television and lighting businesses. More important, we have reinvested the multibillion euro proceeds in organic growth through our continuing major investments in a.o. R&D. Moreover, we acquired high potential businesses in image-guided therapy, population health management, digital pathology, neurology, pregnancy & parenting, healthcare informatics and ultrasound.

Some 60% of our R&D engineers are now in software, indicating the shift in the industry to the leverage the value of data. We partner with our customers to help optimize care delivery, capitalizing on the value of data using clinical informatics decision support systems. This enables us to commit to the improvement of clinical *and* financial outcomes, as well as the patient experience. It also allows us to explore more innovation in business models as we share some of the 'risk' in delivering improvements in outcomes.

The results

Since we decided to focus on health technology, we've delivered upon our financial commitments and have seen a 50% increase in our company value.

Recently, Philips was named in the Boston Consulting Group's Top 50 global innovators in 2018. We've gone up 30 places since the same survey last year, which is a clear recognition of the innovative solutions we are introducing.

Philips employees' teams are energized by our mission and encouraged by our results. The notion of "doing well and doing good" is resonating well and helps us to attract and retain talent.

Customer and other stakeholders are eager to partner with us in our quest to improve healthcare systems around the world. But we have so much more to do… and we must continuously strive to challenge ourselves and our 'beliefs'…

A word on education

As I prepared my address, it occurred to me, ladies and gentlemen, that Tilburg University has been fighting some of the same battles as Philips to stay relevant. It has remodeled itself to better understand but also advance society, be purpose- and impact driven, entrepreneurial and innovative. Moreover, it ensures future relevance by contributing to finding solutions to global societal challenges and focused innovation around three themes:

- Creating value from data.
- Find solutions for active aging, health and wellbeing.
- Contribution to resilience of society.

There's a nice symbiosis here!

Also, higher education is confronted with trends that could potentially disrupt the field. Over the past few years, MOOC or Massive Open Online Courses have been causing major disruptions in higher education. My personal belief is that the pedagogic pendulum will swing back towards the lecture as too many students now graduate as competent surfers of the internet but are unable to navigate the wider ocean in search of deep understanding.

I very much believe in a hybrid form of education, where students will rely heavily on digital sources to get access to the content but whereby classroom training will be of the essence to put the content into context. Classroom lectures also enable engagement with students in a dialogue, putting theories and concepts in a practical context. I am convinced that this will contribute to better and deeper understanding. I see my appointment at Tilburg University very much in this context.

Reflections on what's required to survive in a world of rapid change

Surviving in today's world requires is a daunting task.

I've distilled 10 lessons that I've learned that I hope to expand upon and share with future Tilburg students:

1. First, stay connected to the outside world. Keep an outside-in perspective. Listen to your customers. Let them – not your own internal organization -- be the driving force of all you do. Be aware of your "deadly beliefs". Welcome diverse views. Be inclusive and be aware of the risk of "group think"; *Back in 1992, I was product manager for the Digital Compact Cassette; an innovation that combined the superior sound quality of the CD with the known benefits of the Compact Cassette (a Philips invention that became a world standard in 1963). We believed so much that customers would value the concept of backwards compatibility that we underestimated the consumer's perception of "tape" as a medium of the past. The Digital Compact Cassette (DCC) failed and in 1996 we quietly discontinued DCC.*
2. Don't overestimate the value of "strategy". Strategy should not be a straightjacket but should give you a sense of direction. When executing the strategy, I often experienced that meaning is retrospective (Karl E. Weick)* and that serendipity plays an important role. *I believe that the choice of IBM to transition from a computer hardware company into a services and consulting company was as much the result of a belief in the future of the services industry as its underestimation of the formidable challenges in the computer hardware industry in which it once was a leading player.*

3. When making choices, don't let facts and data mislead you. Fact-based and data-driven logic can give you a very plausible and acceptable justification to make the wrong choice. Things that really matter are often so complex that they become simple again. Dare to trust your intuition as it is the result of accumulated knowledge and experience. Many (great) companies launched products based upon extensive market research and based their decisions upon thoroughly validated business cases. *Products & services like "Facebook Home", "Qwikster" from Netflix, "Google Lively", "Apple Newton" and "New Coke" failed… Other world-changing products, like the Compact Disc or the Iphone, were not based upon thorough research but rather upon technological innovation and "belief" in their potential*
4. Dare to decide. Make choices. Choose or lose. Possess a bias for action. Act fast. Don't wait for things to happen to you: go out and make things happen! *The decision of Philips to IPO its iconic Lighting Business and invest the proceeds in building a health technology company required courage, especially as Philips started as Lighting company.*
5. Stay true to yourself. When making choices, stay true to yourself to who you are at the core (as an organization, institution, company or individual). Trying to be something or someone else erodes authenticity. Who you are at the core makes you unique and will continue to set you apart. Relevant companies are authentic companies. Great leaders are authentic leaders.
6. Anticipate the consequence of your choices for all relevant stakeholders. Take note of their interests and weigh these carefully when coming to final decisions. Be purpose driven and apply judgement. Ask yourself what positive impact you would like to make and what legacy you want to leave behind. Success will be a logical consequence of finding and pursuing the answers to these questions. Remember that success is not only about winning; it's also how you play the game… *I have seen people and companies that build their success at the expense of others. Some experienced short term success; none of them long term. Reality always catches up. The same goes for companies. Think of Enron, WorldCom, Lehmann Brothers and Bernard Madoff, to name a few.*
7. Reckon with adversity. Be prepared to fail. Fail five times? Stand up six. I cannot overstate the importance of determination, tenacity and stamina. *I learned that "strong" leaders and companies have the tendency to externalize their successes and internalize their failures. Bad leaders and companies tend to do the opposite. Abraham Lincoln failed in business at the age of 22 and again at age 24, ran for legislature at age 23 and was defeated. At age 26 his sweetheart died and at age 27 he suffered a nervous breakdown. Between age 30 and 49 he was defeated for speaker, elector, congress, senate and vice president. Lincoln was elected President of the United States at age 51!*
8. Build and leverage authority. Avoid using "power". Power erodes; the more you use it, the more you lose it. Realize that positive attribution is far more impactful than persuasion when you want to drive change and transformation in people. Be true and respectful and treat people as you want to be treated. This will contribute to success.

During WWII, the Germans had power; the royal family authority. Try to be the one with authority…

9. Develop your own wisdom! The most important lesson though is that you should challenge the so called “lessons” that I just cited. I encourage you all to develop your own wisdom. Formulate your own lessons. In doing do, listen to your consciousness. Your soul knows the answers…
10. Finally, redefine the notion of “value”. Let me reflect on this last point a little more as this is particularly close to my heart.

In this context I would like to discuss: ”value creation”, ”valuation” and –most importantly- ”values”:

1. <u>Value creation</u>

There are many symptoms pointing in the direction of the end of the industrial age as we know it. Applying the “old economic paradigms” to welfare creation will lead to big and irreversible problems in my view (social, economic, climate change to name just a few). One of the reasons for this is that conventional economic models assume continuous growth. Ladies and gentlemen, in nature nothing just keeps growing. As a matter of fact, organisms that keep growing, usually turn malicious. Conventional economic models frequently imply the risk of continuous monetary value creation at the expense of ecological sustainability and social credibility. The transition from the industrial age to the new era is so disruptive that all parts of society – including corporate enterprises - have a huge role to play to ensure a controlled change over to new (economic) realities. It is my conviction, that in this context, the notion of “value creation” needs to be redefined.

I find it encouraging to see that more economists elaborate upon the need to change and come up alternative ideas, theories and concepts on potential ways forward. I recognize that many of these evolving theories and concepts require further scientific validation and more research is required to ensure applicability. I would like to briefly mention a couple of publications that have resonated well with me in this context: “*Creating shared value”, by Michael Porter;* “*Enough is enough: Building a sustainable economy in a world of finite resources*“, by Rob Dietz and Dan O’Neill; “*The Economics of Enough”,* by Diane Coyle and *“Doing the right thing, a value based economy”*, by Arjo Kamer and *“Doughnut economics“,* by Kate Raworth.

The common denominator in these publications is the conviction that value creation will have to be re-defined and realized along three dimensions: social, environmental and financial to ensure sustainable development and that we might have to consider new economic models that focus on economic redistribution rather than continuous economic growth.

2. Valuation

Let me also make the point that I believe we need to redefine the way we determine "valuation". In the industrial age, the value of a company was determined by the sum of its assets and liabilities with maybe a little bit of added goodwill. This implied that the valuation was rooted in real and tangible underlying value. Over time, economic models have evolved and base valuation upon the net present value of discounted future cash flows. In the last decade alone, we have seen the risk of inflated valuation in the form of economic "bubbles"…

Let me give you one example that substantiates the point I try to make: in June 2017, the market cap of Tesla Motors, a company founded in 2003, with an annual revenue of around 7 billion USD in 2016, loss giving since its start, exceeded that of BMW, a company that has been around for 100 years, with annual revenues around 100 billion EUR and –consistent- high single digit profitability. I would like to make a plea to base valuation more upon real underlying value rather than hope…

3. Values

One last point. In my view, we cannot reflect upon the notion of "value", "value creation" and "valuation", without reflecting upon "values". I believe the financial, economic and monetary crisis is, above all, a crisis of values. A recent report from Credit Suisse states that the globe's richest 1% own half the world's wealth, highlighting the growing gap between the super-rich and everyone else. One doesn't have to be a supporter of Thomas Piketty to realize that this is just not right and that conventional economic thinking does need to be disrupted rather than finding justification for this enormous and increasing inequality.

In sum

Ladies and gentlemen. In this lecture I have given you a flavor of the challenges but also opportunities that result from the rapid changes in the world. I have summarized how Philips continues to reinvent itself. And I have shared some personal mantras that I have picked up along the way. Most indicate the need for change and the revival of one's consciousness in today's and tomorrow's society. Before I conclude, I'd like to thank a number of people.

Let me start with special thanks to Prof Dr Emile Aarts, Rector Magnificus of TiU.

Emile, you and I connected deeply from the moment we met. Thank you for giving me this opportunity. In 1990, after graduating from my Alma Mater, The Erasmus University, I was nominated for a prestigious exchange program with the University of California, at Berkeley. I was going for six months. After six days I had to return home, due to illness. I was very disappointed, sad and even obstinate. On the day of departure, I promised myself that I would return one day as a Professor. Today, 28 years later I am standing here to deliver my inaugural address. Emile, without you being aware, you helped me to deliver upon that commitment that I made to myself close to three decades ago…

I would like to thank my parents, brothers and their families for their love and support. My lifelong friends Leon, Marc, Ronald and Wim for being my ***true*** friends – in that they accept me for who I am in good and in bad times.

Prof. Dr. Mirjam van Reisen for our great collaboration in both the supervisory board of SNV, the network for Globalization, Aging, Innovation and Care and the board of the Philips Foundation.

Prof. Herman Wijffels for sharing his wisdom.

Jan D. Timmer, former President and CEO of Philips for being a source of inspiration and a role model of leadership.

Frans van Houten, CEO and Chairman of Royal Philips, who has given me the chance to join the Executive Committee of Royal Philips and be part of the transformation of the company.

Special thanks to Dr G.J. Creemers, internist and oncologist at the Catharina Hospital in Eindhoven as without him, I would literally not be standing here.

Dear Karin, whilst I am standing here today, you and I know that we have done everything together the last 25 years… I love you very much.

Ladies and gentlemen, I am coming to a close of my address.

A good friend asked me recently how long I have spent on preparing this speech: I thought long before I answered: it took me the last 51 years...

I have spoken.