

Royal Philips Electronics

A serious responsibility

When the head of one of the world's leading electronics companies makes such a public commitment to sustainability, he puts his products, his business methods and his employees firmly in the spotlight. So just how does sustainability become an opportunity rather than a challenge in the context of tough commercial pressures and what does this commitment mean to more than 180,000 Philips' personnel around the world? We talked to Henk de Bruin, the man responsible for the company's Corporate Sustainability Office located in the Netherlands.

Can you tell us what you mean by the term 'sustainability' at Philips?

We use the word 'sustainability' to encompass all aspects of corporate responsibility; the way we interact with the environment and society, the ethics of our business methods and processes. This sense of responsibility goes right back to the founding of the company in 1891 and manifested itself throughout the first half of the 20th century in a wide range of initiatives such as social funds, tree planting programmes and economic re-development after World War II. Then in the 1970s, when environmental concerns intensified, one of our board members successfully promoted the set-up of a dedicated environmental office, which became the centre of a global network of offices in the following decade. The network focused on spe-

cific issues such as energy reduction and dealing with hazardous waste, and then in 1994 we launched the first of a series of four year plans designed to make all of our manufacturing processes and our products more environmentally friendly.

How we relate to the environment is obviously still extremely important to us, but we wanted to make sure that we didn't lose sight of all the other aspects of corporate responsibility. That's why the corporate sustainability office (actually the environmental office evolved into the sustainability office) was set up to co-ordinate our work across the whole of this area, encompassing health and safety, social responsibility and financial and business issues alongside environmental concerns. We don't just look at what is happening within Philips, but at the world as a whole and then help senior management to prepare policy and define action plans.

Can you give us some examples of sustainability in action at Philips?

I think it's important to point out that sustainability is not just a policy that has been dictated by senior management, although complete commitment to the principle at the very highest levels of the company is invaluable. Sustainability is also a bottom-up initiative, inherent in everything we do. Just one example of how it shows itself at grass-roots level is the range of volunteer programmes run by employees around the world, such as the HIV/AIDS education programme set up and organised by our people in Brazil.

Commitment to sustainability also manifests itself in our approach to product development. Every aspect of development, from R&D to sales and marketing conforms to our system of EcoDesign, which examines the whole life cycle of a product, looking at how it will perform in what we call Green Focal Areas, such as energy conservation, packaging and recycling. And since 1998 we've operated against some very strict targets to ensure we continue to make progress in all of these

areas. The results of all this are now in use all over the world. For example the Philips widescreen 28-inch TV is 10% lighter and uses 49% less energy than its competitors, HiPerVision bulbs used in the automotive industry use 36% less energy and 99% less lead than conventional lighting and our TDA 9886 computer chips have reduced packaging and hazardous substances by as much as two-thirds.

"The challenge facing CEOs today is one I prefer to call an opportunity. I call it the Sustainability Imperative.

I think that, addressed properly, we can use this opportunity to create, not only value for shareholders, but real longer-term meaning as well. And in the process re-invent ourselves and our roles in the corporate world."

Gerard Kleisterlee,
President and CEO, Royal Philips Electronics
CEO2CEO Conference, New York, November 2002

How do you balance your commitment to sustainability with a reputation for commercial innovation?

In our view responsible business is good business. Take for example the EcoDesign process. Making a product more environmentally friendly usually means making it more simple and efficient and that means creating a better product – one that will be more successful in the market. Developing green products can also bring you some very influential friends. Our long-term commitment to reducing the level of mercury used in lighting tubes, for example, means that the Environmental Protection Agency in the USA has become a strong advocate of Philips' lighting products.

What you might term 'green marketing' by which consumers choose a product because of its environmental credentials has become a reality in recent years but it would be wrong to over-state its impact outside areas such as food and perhaps cosmetics. In the electronics industry we're sensible enough to recognize that products usually sell on

PHILIPS

their design and effectiveness rather than on environmental features. However we do believe that there are powerful advantages to a brand having green credentials. At Philips that's embodied in our saying, "Let's make things better." Our business is about improving people's lives by gaining and employing a deep understanding of how people interact with technology – as our CEO says, we make technology for people. That's why we invest so heavily in projects like the Home Lab in Eindhoven in the Netherlands, where we have installed the best in current technology together with experimental future technology. We then get volunteers to come and live in the lab for a period of time and closely monitor them with closed circuit TV to see what works and what doesn't. At Philips Design we run long-term social and cultural research which examines the whole human landscape from art to fashion to architecture to communications. To create technology that works, you first have to get a true understanding of its user.

How would an MBA joining Philips experience the company's commitment to sustainability?

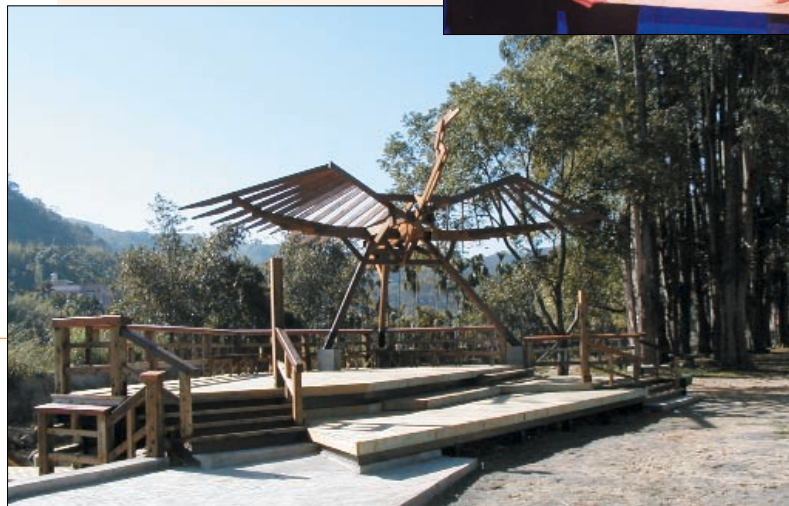
As a company we look to recruit and retain the very best people available and we place great store in leadership and functional skills and the drive for business excellence. That's one of the reasons we put so much effort into recruiting graduates of the world's top business schools. At the same time we believe that sustainability is second nature to us and we look for the same attitude in any new member of our community. We have a wide range of initiatives designed to keep sustainability at the forefront of everyone's mind including an annual report on our progress in the area, which is widely publicized both internally and externally and an award for employees making significant contributions to this progress. Through our values we, in a way, are also introducing sustainability as one of the key measures in our appraisal procedure, the People Performance Management System, so that achievement in this field can be directly linked to both remuneration and career development.

At Philips sustainability really is nothing new; it's 'business as usual' as it has been for over a century. Sustainability has remained an integral part of everything we do because we approach it in a realistic, pragmatic way. Sustainability lies at the core of our business because while Philips is about technology, we never forget that Philips is about meaningful technology for people.

Interview carried out by Adrian Barrett

For application details please see page 60

Tao Min Ecological Village
Philips Taiwan was an early supporter of the Tao-Min Ecological Village, donating lighting, broadcasting systems and electronics to more than 20 primary schools. Philips is also the sole sponsor for the Village's ecological tourism education program. In 2002, Philips lit the 921 Earthquake Memorial Museum that has become one of the landmarks in Tao-Min.



"Donate Life" Doe Vida

More than 240 volunteers have attended an eight-hour training program covering medical systems, statistics and the emotional impact of HIV/AIDS, including dealing with prejudice. Projects like Doe Vida and Philips Brazil's and other community activities have been noticed. For the fifth consecutive year, Philips has been named most admired company in its industry sector, according to a Carta-Capital magazine survey of 1,500 opinion leaders.

