Royal Philips Electronics Quality Journey

Business Excellence, the Philips way

III Congreso de Excelencia

San Sebastián, June 3-4, 2010

Hans van Beek
Agenda

• Royal Philips Electronics
  – The company

• BEST
  – The program
  – Complimentary tools and approaches
  – The learning

• “Sense and simplicity” in Business Excellence
  – Role of assessment
  – Interaction with the ISO quality system
  – Linking it all together.
Building the leading company in health and well-being

An introduction to Philips
PHILIPS

A well-respected, blue-chip company for over 100 years

Founded in 1891
Headquartered in Amsterdam, the Netherlands

Sales over EUR 26 billion (USD 33 billion)
Over 30% in emerging economies

116,000 employees
Sales and service outlets in 100 countries

Globally recognized brand (world top 50)
Our brand value has doubled to $8.3bn since 2004

€1.6 billion investment in R&D, over 6% of sales
55,000 patent rights – 33,000 registered trademarks
– 49,000 design rights
Philips portfolio leverages a number of critical global trends

**Aging population**
The number of people aged over 60 will double from 500m today to 1 billion by 2015.

**Emerging markets**
99% of future population growth will be in emerging markets. Emerging markets already produce 28% of global GDP.

**Empowered consumers**
Demanding solutions to fulfill their personal needs.

**Climate change and sustainable development**
19% of global electricity consumption is used for lighting. We can save 40%...or 600 power stations worth of energy!
Philips defined: we are...

“...a global company of leading businesses creating value with meaningful innovations that improve people’s health and well-being.”

Health and well-being
A commitment to healthy, fulfilled lives in our communities and societies our world

Meaningful innovations
Improving people’s lives Going beyond technology Introduced at the right time
Our health and well-being offer is powered by 3 businesses

2009 indicative sales split

- Healthcare: 35%
- Lighting: 35%
- Consumer Lifestyle: 30%
Close customer relationships
Creating promoters of our brand

| Customer loyalty is fundamental to growth and profitability. |
| We win the trust of customers and partners: |
| • by understanding and anticipating their needs |
| • by sharing our insights |
| • by providing the right products and solutions |

We monitor our effectiveness with the Net Promoter Score based on a simple question: “would you recommend us to a friend or colleague?”
Philips people

*Strong leadership, a highly engaged workforce*

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**Employee Engagement Index**

*High performance benchmark*

A strong leadership team

60 culturally diverse top leaders focus on driving our global businesses to reach their short and long term goals.

A high performance workforce

The annual ‘employee engagement index’ polling over 90,000 of the Philips workforce is touching the high performance benchmark of the 3rd party agency managing the survey.

Living the values

Philips has four simple values which ‘live’ within the company and drive the actions of our people.

An eye on the leaders of tomorrow

We structurally manage our talent, offering fast-track, stretch opportunities for top performers to ensure a quality succession pipeline for our leadership team.
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### Evolution of Quality Management in Philips

<table>
<thead>
<tr>
<th></th>
<th>’85 - ’90</th>
<th>90 -’99</th>
<th>2000 - …</th>
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</thead>
<tbody>
<tr>
<td><strong>Name</strong></td>
<td>CWQI</td>
<td>Philips Quality</td>
<td>BEST</td>
</tr>
<tr>
<td><strong>Focus</strong></td>
<td>Internal</td>
<td>Customers</td>
<td>All stakeholders</td>
</tr>
<tr>
<td><strong>Quality of …</strong></td>
<td>Products</td>
<td>&amp; Processes</td>
<td>&amp; Competence</td>
</tr>
<tr>
<td><strong>Improvement teams</strong></td>
<td>Functional</td>
<td>&amp; cross-functional</td>
<td>&amp; total value chain</td>
</tr>
<tr>
<td><strong>Relation to strategy</strong></td>
<td>Separate</td>
<td>Parallel</td>
<td>Implementation</td>
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<tr>
<td><strong>Managers ..</strong></td>
<td>Delegate</td>
<td>Support</td>
<td>Lead</td>
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</table>
Requirements for the 3\(^{rd}\) generation program

- Senior management responsibility
- Key approach to improvement of business performance
- Balance of stakeholder needs
- Integrator of change initiatives
- Branding the program
- Company wide, all businesses & geographies
BEST
Our way to business excellence
Philips Business Excellence (PBE) Policy

- **Business Excellence ...**
  We aim to be one of the best companies in the world: the best to trade with, work for and invest in.

- **through Speed ...**
  We will increase the speed of our business processes and of our learning processes.

- **and Teamwork**
  Competence, the foundation for excellence, is acquired by working in teams and learning from best practices.
PBE model = EFQM model

- Sustainable excellent performance for all stakeholders
- Based on the EFQM excellence model
- An external standard, not invented by us.
Teamwork: Business Improvement Competition

1) Engage people to start improvement projects
2) Share knowledge & encourage people to work in a structured way
3) Achieve great team results and make a difference
4) CL management in the jury
5) Make improvement fun
6) Recognition of great results
Features of the BIC

- One world wide final
- Market stands
- 3 Functional categories:
  • Technology & Development
  • Marketing & Sales
  • Operational Improvement (all other functions)
- BIC linked to Management Agenda
- Management Team involved
  – Team building activities
  – Award Ceremony
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Business Excellence: our desired state

Excellence: Sustainable excellent performance for all stakeholders

Based on the PBE Model

BEST: How we improve business performance
The BEST Management Process

- Lead and Direct
- Prioritize and Deploy
- Organize and Execute
- Assess and Review

How leaders set direction and objectives
How we break objectives down into actionable pieces
How teams execute the work using appropriate tools
How all of us evaluate and learn

Supported by BEST quality tools
• One Page’ Strategy
• Business Balanced Scorecard

• Process Improvement methodology
• Black Belt teams
• Qual. Impr. Teams & Competition
• Problem Solving (8D)

Lead and Direct
Prioritize and Deploy
Organize and Execute
Assess and Review

• Review of Balanced Scorecard
• ISO 9000 certification
• Process Survey’s
• Customer & Employee Surveys
• PBE assessments, awards,
• Headquarter Audits
• Benchmarking

• Breakthrough management
• Continuous improvement
• Problem solving
Another Initiative??

Oh no, not again!
The PBE Model supported by other approaches

Leadership Competencies

Philips’ Values

ISO

MEDIC

EES Survey

Balanced Scorecard

People

Policy & Strategy

Processes

People Results

Customer Results

Society Results

Key Performance Results

Balanced Scorecard

One Page Strategy

Partnerships & Resources

Process Survey Tools

Environment Survey

Customer Surveys

Black Belt

Survey Tools

Society

Results
PBE Assessments: three main formats

• **Self-Assessment**
  – Identify improvement opportunities
  – Measure progress

• **Self-Assessment Validation**
  – First external calibration
  – Check readiness for Award Assessment
  – Line management involved (peer assessors)

• **Presidential Award Assessment**
  – Philips-wide calibration
  – Comparable to external assessment
  – Senior line management assessors (peers)
  – Corporate recognition
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What did we learn in Philips?

Assessment approaches and practices may be:

- *Time consuming*
- *Paperwork intensive*
- *Heavy on resources*
- *Award or bonus driven*
- *Disconnected from the real business issues*
- *Lacking “assessment and review”*
- *Still product quality issues*
- *The same way for too many years*

**No holistic reviews if improvement methods are not in place!**
Relation with EFQM and other approaches

- Philips is one of the founders of EFQM
- No changes, stay fully aligned with EFQM at the start
- Easier benchmarking with other organizations, that use EFQM model
- Worked with EFQM for more efficient assessment methods
- Changing role of the Quality Manager
- Introduced Six Sigma Black Belts for “Breakthrough” Improvements
Needs for a new PBE approach

• Better linked with business strategy, key objectives and management agenda
• Improvement on results from key drivers (e.g. customers, product quality)
• Focus on “excellence” and actionable key improvements, less on scoring
• Shorter Briefing Documents, making use of existing business documents
• Reduced assessment effort, focused on cross learning
• Eliminate non-value-adding bureaucracy around PBE

Extract from “Becoming part of Growth, Talent & Simplicity”

I would like our customer focus also to become the main driver behind our PBE approach. While our quality approach has helped us to become a better managed company, it has also resulted in an abundance of audits and too much bureaucracy. Therefore, we have asked the Quality Policy Board to review our approach and come up with proposals that keep the good things of PBE with reduced red tape.

Gerard Kleisterlee
The value of PBE reconfirmed

To comprehensively analyse and review the business against the model of excellence:

- Where we are now? (analysis / self assessment)
- Where we want to go? (ambition for excellence “Desired States”)
- How to get there? (set the improvement plan)

To identify improvement opportunities and priorities:

- in a structured and fact-based way
- linked to the Management Agenda and BBSC
- underpinning the Business Plan
- aimed at delivering the strategy
- creating a clear improvement agenda

Value: PBE still provides our reference model for excellence
### ‘Enabler map’

PBE criteria corresponding to business processes (Example)

<table>
<thead>
<tr>
<th>Business Process Areas</th>
<th>Ownership</th>
<th>Team/Platform</th>
<th>PBE Enablers</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Management processes</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 Leadership / Governance</td>
<td>CEO</td>
<td>Exec.Committee</td>
<td>1</td>
<td>(7a)</td>
</tr>
<tr>
<td>2 Strategy Planning &amp; Review</td>
<td>Business Strategist</td>
<td>Exec.Committee</td>
<td>2</td>
<td>9a, b</td>
</tr>
<tr>
<td><strong>Primary processes</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 Marketing</td>
<td>CMO</td>
<td>Marketing Board</td>
<td>(2a,b)</td>
<td>(6a,b)</td>
</tr>
<tr>
<td>4 Research &amp; Development</td>
<td>CTO</td>
<td>Innovation Board</td>
<td>4d, 5c, (4e)</td>
<td>(6a, 9a, b)</td>
</tr>
<tr>
<td>5 Purchasing &amp; Supply Mgt.</td>
<td>CPO</td>
<td>Purchasing Board</td>
<td>4a, c, 5d</td>
<td>(6a, 9a, b)</td>
</tr>
<tr>
<td>6 Manufacturing</td>
<td>Industrial Mgr</td>
<td>Industrial Board</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7 Supply Chain Management</td>
<td>SCM</td>
<td>SCM Meeting</td>
<td></td>
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<tr>
<td>8 (International) Key Account Mgt. / Sales / Service</td>
<td>CMO</td>
<td>Marketing Board</td>
<td>5e</td>
<td>6a, b</td>
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<tr>
<td><strong>Supporting processes</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>9 Finance</td>
<td>CFO</td>
<td>Controllers Meeting</td>
<td>4b</td>
<td>(9a,b)</td>
</tr>
<tr>
<td>10 Human Resource Mgt.</td>
<td>HR Mgr</td>
<td>HRM Meeting</td>
<td>3</td>
<td></td>
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<tr>
<td>11 Inform. &amp; Comm. Techn.</td>
<td>IT Mgr</td>
<td>IT Meeting</td>
<td>4e</td>
<td>(9b)</td>
</tr>
<tr>
<td>12 Business Exc Mgt. / Quality</td>
<td>BE Mgr</td>
<td>BEM Meeting</td>
<td>5a,b</td>
<td>(6b)</td>
</tr>
<tr>
<td>13 Sustainability</td>
<td>CSO</td>
<td>Sustainability Board</td>
<td>(4a,c,d)</td>
<td>8a,b</td>
</tr>
</tbody>
</table>
**Process Survey Tools**

Philips has made these PST’s available through EFQM.

<table>
<thead>
<tr>
<th>Element 1</th>
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<tbody>
<tr>
<td>1</td>
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<td>10</td>
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<table>
<thead>
<tr>
<th>Element 2</th>
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</table>

| Process Survey Tool for Facility Management |
| Process Survey Tool for Purchasing        |
| Process Survey Tool for Human Resources Management |
| Process Survey Tool for Supply Chain Management |
| Process Survey Tool for Finance           |
| Process Survey Tool for Marketing & Sales |
| Process Survey Tool for Manufacturing Process Management |
| Process Survey Tool Guide                 |
Business strategy drives process excellence

Strategic review → Strategic objectives

- Objective A
- Objective B
- Objective C

Deliver strategy

Process-DS → PBE-SA

Improvement initiatives
- 
- 
-
Desired State as basis for self assessment

Our standards:
Where are we relative to where we want to be as a business?

- **Business Targets**: On plan performance
- **Benchmark**: Industry Leader, Best in Class
- **Desired State**: Our definition of Excellence

**Basic requirement**

**Used to learn & set goals & targets**

**Our on-going ambition**
Desired States

• ‘Desired State’ concept triggers, management to express their ambition for the business in the language of the business

• Defines what is understood by business excellence in the context of the particular business environment

• Facilitates use and deployment of the PBE model

• Facilitates identification of Business Drivers

• Triggers the need for outward looking and customer insight

• Challenges a critical view on existing KPI’s

• Time horizon 2-4 years
Visions of excellence
How we run Philips
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The role of Self-Assessment

• Improvement is the goal
  – The goal of Process Area Self-Assessment is to improve the process-area, the process and the holistic business

• Scoring is a tool
  – Encourage thinking according to RADAR
  – Measure for progress
The people in Assessments
for business as well as administration departments

- **Self-assessment**
  - Business managers
  - Department leaders
  - Process owners
  - Quality managers
  - Customers of the process
  - Experienced assessors from other companies

- **Peer assessment**
  - Same as above but…..
  - Colleagues at the same hierarchy level
  - Colleagues with EFQM assessor experience
  - No scoring……..

All are trained and familiar with the EFQM model and (self) assessment methods
PBE workflow

- **Preparation**
  - 1 Process Areas
  - 2 Desired States & KPI’s

- **Self Assessment**
  - 3 Process Area Self Assessments
  - 4 Holistic View

- **Peer Review**
  - 5 Organization & Documentation
  - 6 Review Day
## Building ownership and operational fit to your business

* A process of defining and agreeing …

<table>
<thead>
<tr>
<th>Criterion Part</th>
<th>Desired State</th>
<th>Approaches-Key Processes</th>
<th>Process Perf. measure</th>
</tr>
</thead>
</table>
| 2a             | We understand the needs & expectations of our stakeholders. Our Policies & Strategies are designed to exceed customer, employee, partner & shareholder expectations | • Business Planning & Review Process  
• Market Analysis  
• Customer requirement/satisfaction research  
• EMS  
• Barrel meetings  
• SBM process | • SWOT analysis in strategic plan explicitly refers to expectations of stakeholders. Ambition is formulated to exceed them. |
| 2b             | We are a learning organization. Systematic review of our Business performance combined with analysis of the environments in which we operate, shapes & focuses the content of our Policies & Strategies | • Business Planning & Review Process  
• PBE self-assessments & Peer Audits  
• PST self-assessment & calibration | • BBSC guides agenda of Business performance review meetings.  
• Issues & Strategies are checked with history and based on SWOT  
• Learning from PBE is part of strategic plan and bus. reviews |

*Done at successive layers in the organization to fit their specific processes*

*In-process measures to monitor progress*
**Strength in terms of approaches, deployment and regular/structured assessments and reviews.**

What needs to improve to come to a better approach, deployment and better assessment and review?

Criterion parts as mentioned in BPA. Score in relation to DS and PBE-model “may include” statements.
Developing the holistic view

• Functions use Master Black Belts to drive improvement in the function.

• The functions come together in the business execution teams that drive the business results. (growth, margin, customer satisfaction)

• Even if each function itself is excellent there is no guarantee that the execution will be excellent too.

• PBE provides the process for management of improvement for execution teams.
Peer Review

Preparation
1 Process Areas
2 Desired States & KPI's

Self Assessment
3 Process Area Self Assessments
4 Holistic View

Peer Review
5 Organization & Documentation
6 Review Day
Key characteristics of the Peer Review

• Used to provide an external view on the business.

• Focus is on specific themes, the level of excellence and the improvement process.

• Host organization determines the specific themes (also derived from PD or higher management)

• Carefully selected peer reviewers based on managerial experience, knowledge of the key themes, the PBE model and RADAR.

• One day, owned by the assessed team, no scoring!

• The spirit of the review process is joint learning and business improvement.
Details for one assessment day

- **Intro**
- **parallel session 1**
- **parallel session 2**
- **parallel s. 3**
- **parallel s. 4**
- **Review Team shapes key questions**
- **Workshop with MT and Review Team**
- **Consolidation**
- **Presentation by MT**

Time:
- 8:00
- 12:00
- 13:00
- 17:00
Focus of ISO9000 audits

- PBE is leading Quality Management System
- There is overlap between PBE and ISO9000
- With mature PBE: ISO9000 will focus on “B” area and will accept PBE results of “C” area
Linking it all together

Where we want to go

Desired States show the deployment of Ambient and Personal Living Strategy

How to get there

Management Agendas

Where we are now

Analysis per process area / function.

Identify Strengths & Weaknesses

How to stay on track

PDCA to monitor and correct
Living the Brand inside the company has led us to review our PBE approach against the principles of “sense and simplicity”. This has resulted in a new, streamlined PBE that will ensure that we keep our eye on making excellence the everyday reality through which we deliver the customer experience which I seek.

Gerard Kleisterlee
President and CEO
Th an k you!

“Simplicity is the ultimate sophistication”

Leonardo da Vinci