

Speech

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Driving innovation in corporate culture: How design supports the CEO into turning this challenge into an opportunity

Last Saturday I received a Honoris Causa recognition from the Hong Kong Polytechnic University, the first sentence of the citation says – "Most designers have their focus on the commercial success of their products. Dr. Stefano Marzano has his eyes squarely trained on our future. He cares about the products as much as posterity, about survival or sustainability of our planet as the quality of life of its inhabitants. He is a crusading humanist whose ambition is to design a better future for humanity." I am honored by this flattering introduction and would like to start by touching on a couple of things that were said. In the citation there was reference to caring about our planet and the quality of life of its inhabitants, about designing a better future, about being a practicing humanist. While these are things I strongly believe in and am happy to acknowledge, I would also argue that these are more than just personal beliefs; they are at the very heart of successful and effective design. To me, design is a humanistic profession, and when it is carried out properly it should integrate and synthesize many different factors – for instance social, cultural, economic and technical – in order to create propositions that really do enhance people's lives while making business more competitive, able to book sustainable profitable growth.

Design with a capital D

This kind of design is something I call 'design with a capital D'. I do that to differentiate it from, let's say, the conventional notion of design, which is more concerned with product styling and aesthetics, and doesn't take the broader picture, which includes issues like understanding business, customers and end user context. I will come back to 'design with a capital D' later.

On hearing about my belief in the humanistic characteristics of good design, you may think there is a kind of philanthropic theme running through what I do, and what Phillip Design does. That's also something I'll talk about a little further on, because we do actually have a program called Philanthropy by Design. But essentially what we do is work in a way that creates value for business while also creating value for society. It may sound cliché, but I really do see this in terms of a win-win situation. So it's not about being a crusading

humanist, and there is no contradiction. Creating a brighter future and a sustainable quality of life should be the objective of great companies and good business. There shouldn't be a conflict between profitable operation and responsible practices.

Coping with transformation

Because the truth is, if you want your company to be relevant and remain relevant, you have to think and act in a way that is sustainable. You have to innovate in a way that creates short-term value but which also takes long-term transformation into consideration. What do I mean by that? Well, our world is in a constant state of transformation. Sometimes there are periods of rapid change, brought on by landmark events such as last year's financial crisis or 9/11. Other transformations take place over longer periods but are just as significant, like climate change or the steady increase in the global population.

But regardless of how it occurs, this transformation will never stop, and it provides a constant challenge to every company that exists. As companies and as a design community we should strike a balance between having our heads in the clouds and our feet on the ground. So we come up with products that have immediate relevance, for instance that purify the air in our homes while thinking further ahead – sometimes much, much further ahead – and about how we could connect products and solutions in a more systemic way so as to help tackle the major issues of our time, as well as those lurking over the horizon.

What is innovation?

Innovation is vital to all this. It is the engine for future sustainable development and future profitable growth. I think everyone appreciates this. But there is an important distinction between true innovation and what is novel simply because it is different. True innovation has to be recognized by people as such, and should advance the interests of the company while contributing to the quality of life by giving people something they really enjoy, or really need, or really appreciate. Innovation is not some gimmick that is here today, gone tomorrow, not delivering anything other than the possibility of short-term profit.

Being innovative is also about being a protagonist of the future. The future doesn't just fall out of the sky. The majority of events taking place in the coming months and years are a direct consequence of individual actions. We may think that what we do doesn't matter, that it is merely a drop in the ocean, but we shouldn't forget that without all the drops there wouldn't be any ocean at all. Therefore we have to be active participants, innovating in a way that helps us direct the future, contribute to it and make it that little bit better.

Design is a valuable support for companies who set out to be protagonist of the future achieve this. But before explaining how, I want to talk about one of the possible

obstacles some people bring up; the difficulty in quantifying exactly what you can expect as a return for your investment in design.

The value of the intangible

We can measure many other factors that are heavily influenced by design. The satisfaction of customers for instance, using an indicator called the Net Promoter Score, which evaluates how likely someone is to recommend a product or company to friends and family. We can measure the value of technological research by the intellectual property it generates. It is also possible to measure the effectiveness of marketing and advertising campaigns through monitoring product sales or tracking levels of product or brand recognition.

However, it's difficult to ascertain exactly how much of these results can be attributed to design, because there are so many other contributory factors. And so I appreciate that some CEOs would maybe feel reluctant to commit valuable resources to an activity whose benefits are not easy to measure precisely. But let us not be discouraged. Albert Einstein once said that "Not everything that can be counted counts, and not everything that counts can be counted." Someone far more intelligent than I could ever hope to be was already articulating this dichotomy between the tangible and intangible, and pointing out that it's not always the counting that counts.

Widespread recognition of design

And despite the relative lack of quantifiable feedback, design is widely recognized as a strategy for competitiveness. Only last month, an article in BusinessWeek talked about how major companies like GE and Proctor and Gamble – as well as Philips – were adopting or had already adopted what it called 'design thinking' to solve problems and address major issues. Many other companies are starting to focus on design as a strategic tool for innovation and developing new propositions.

And even the quantification is beginning to appear. The UK Design Council has carried out research which concludes that businesses using design perform better than their rivals. In fact, it says that design has a positive impact on practically every measure of business performance, including market share, growth, productivity, share price and competitiveness.

It also carried out a national survey in 2008 which revealed how much British companies themselves value design. Thirty percent regarded design as integral to their operation, double the level in 2005. On a broader level, more than half of the firms who participated also agreed that design was integral to the UK's future economic performance. And research by the Danish National Agency for Enterprise & Construction concluded that companies that adopted a comprehensive and systematic approach to design increased gross revenue by 40%.

And in any case, maybe we should all try to be a little more like Einstein, trusting in what we can't count as well as in what we can. After all, I am here today talking about innovation, which is also notoriously difficult to categorize. And as CEOs and leading business figures, I know you have an understanding of the entrepreneurial spirit, and know that you therefore also have the capacity to embrace design as a driver for innovation.

Three ways in which design can help

But in what ways can design actually help? I want to touch on three examples that illustrate the power of design in innovation to create more value for customers and end users through experiences that will increase satisfaction, bonding and loyalty: help identify what is at the core of a company, differentiation and enhancing by providing appropriate and translate that across all touchpoints with the brand

Psychosynthesis and self-realization

First of all, design can help connect to this transformation I already talked about by discovering the company's true identity. Design can provide clarity, through behavioral research, on issues like; who are we? What is our relevance? What do we want to achieve?

The key to this is remaining true to yourself and your core values, especially in times of crisis. Roberto Assagioli, a fellow Italian, was a psychiatrist who founded the movement known as psychosynthesis. The idea of self-realization was central to his theory. He talked about eliminating conflict and obstacles, both conscious and subconscious, which stood in the way of the complete and harmonious development of the human personality.

Although this philosophy may be new to some of you, its central principles should be recognizable to us all. Each of us has many different personality traits. We can be outgoing in some situations, shy in others. Courageous as well as timid. It is through developing and becoming aware of the true self that we also bring these various aspects of ourselves under control. In other words, we have to find out who we really are, what our core values are, in order to bring out the best in ourselves.

Concentrating on the core

The same applies to companies. To innovate they have to be in touch with themselves. They have to discover what they really represent, what is at the heart of everything they do so to make a precise and unique "promise" to customers and end users. It's not just about selling for the sake of selling, or sacrificing entrepreneurial enthusiasm for the sake of profit. When you look at the origins of my company, you see that founders Anton and Gerard Philips were committed to not only innovation but also creating for the good of the people both inside and outside the company.

Some time ago we realized that we had strayed away from this original direction. Like in psychosynthesis, we had to rediscover our core, to find out our true self again. It was time to get back to basics. We had become too technology-driven, too complex and needed to shift our focus back to improving the quality of people's lives through the spirit of innovation and exploration. This was encapsulated in our brand promise of 'sense and simplicity'. It is also evident in the realization that we can't add value in so many different ways as before. Today, by focusing on health and well-being, we channel this spirit into areas where we can really make a difference through offering meaningful and relevant innovations.

Three horizons

And design can play a key role in this. It can help communicate these values and competences throughout the organization – and beyond – to generate a wider understanding. And it is a tool for developing, visualizing and expressing key values and competences that are required to determine the long-term role your company will play in this transformation.

To give an example, our design group at Philips has used the three horizons model, described in a McKinsey book entitled *The Alchemy of Growth*, to help drive our innovation efforts. In short, this model is based around the claim that companies have to manage three different horizons simultaneously in order to innovate effectively. These three horizons defend and extend the company's core business, while developing new business and creating viable options. One of our activities at Design is to examine wide-ranging societal dynamics, for instance global population growth or the spread of pandemics, and then to instigate what we call Design Probes that investigate potential directions worth exploring to address these issues. This would be classified as a horizon three activity, and shows that we are structurally committed to investigating possible scenarios that may only begin to play out 10 or even 15 years from now.

Probes

Our Probes explorations often involve tracking trends and developments that are currently no more than 'weak signals' emerging from the fringes of society, but which could ultimately have a profound effect on our lives. Such observations are often crystallized in what we call contextual insights, which contain information on future contexts, dilemmas and solutions and which can be used to support decision-making and help understand the implications of change.

For instance, our Sustainable Habitat Probe examines revolutionary ways of exploring the possibilities of making entire buildings as self-sufficient as possible in terms of energy, water and even food, so the inhabitants can largely function 'off the grid'.

Meanwhile our Food Probe looks at possible fundamental shifts in how and what we eat. Themes include portable scanners that give exact nutritional value readings of food and relate this data to your own personal needs at that moment, and a 3-D food printer that actually reconstructs edible ingredients in any shape and consistency you desire.

Design as a differentiator

The second example I want to give about the value of design is how it can help the company translate its values and utilize its competences to innovate in a way that is different from others. At Philips, as I already mentioned, we concluded that being people-centric was preferable than being technology-driven, and out of this realization came 'sense and simplicity'. Our commitment to make things that are relevant and meaningful is the 'sense', and the way we do it as well as the benefits experienced by users - is the 'simplicity'. But in order to achieve this we first have to understand the contextual environment in which people live their lives.

High design and the Renaissance

And for this you need a multidisciplinary approach to design. In the beginning of the 90s I initiated such an approach at Philips, calling it 'High Design'. This was no longer design that focused on product styling and aesthetics, but a many-faceted discipline which was research-based, people-focused and properly integrated into our business. This is the 'design with a capital D' I briefly mentioned earlier.

Much of the inspiration for this came from the Renaissance. The archetypal Renaissance man, Leonardo da Vinci, was a scientist, mathematician, engineer, inventor, painter, sculptor, architect, musician, writer and much more besides. Some say he was possibly the most multi-talented person ever to have lived. While it is unreasonable to assume that so many competences can be found in one person today, it is possible to craft an organization with a tremendous diversity of talent, and that was what we did at Philips Design. So in addition to designers we also have anthropologists, psychologists, socio-cultural experts, trend analysts and many other disciplines considered relevant if you want to properly understand people and their motivations, and then come up with appropriate solutions for them.

We already have many examples of how this works in practice. I can take a recent one, our Wake up Light, to illustrate the point. There are very few people who enjoy having their dreams abruptly disturbed by the sound of an alarm clock. So we set about studying this key moment in the day, which led to the creation of a bedside product that gently coaxes people out of their slumber by simulating a natural sunrise. This is a kind of differentiation you can create when you understand the context. And context is very often the key. In the words of Jeff Immelt, Chairman and CEO of GE, "The most important thing I've learned since

becoming CEO is context. It's how your company fits in to the world and how you respond to it."

Offering appropriate experiences

The third example of what design can do is that it helps companies offer appropriate experiences for both its customers and end-users. To do this you have to first generate an understanding of all the different touchpoints a company has with the market. This is obviously something that takes place on many different levels, from macro to micro. Think of it as starting off with a global view and then continuing to zoom in until you get to the level of the individual.

Different levels of healthcare analysis

Let's look at how we use this as a basis for developing our solutions in healthcare. The broad, global view is on the level of a care cycle, like oncology or cardiology. This is obviously something that is relevant for people and healthcare facilities all over the world. If you then zoom in you arrive at the level of the hospital itself, but also of the home environment if that is where care is being given. If you keep zooming in you come to the medical staff, patients, informal caregivers and other stakeholders.

What we can do is map the experience flow on each of these levels, and in doing so pinpoint the main issues and opportunities. We do this as part of an ongoing dialogue with the relevant stakeholders, using this experience mapping as a tool for co-creativity and co-creation. By generating an outside-in perspective we can come up with recommendations and solutions that benefit both the healthcare facility as well as the patients.

Disney Children's Hospital

A good example of this in practice is Disney Children's Hospital, which is a separate facility in the Florida Hospital dedicated to pediatric care. Through talking to staff and administrators, as well as observing patients in the old children's emergency department, we gathered insights, developed the contextual understanding of the situation, and then co-created a visionary plan. It was based around our Ambient Experience Design solutions, and aims to soothe, distract and entertain children being treated, as well as the family members who accompany them, while improving the working environment for staff.

The solution incorporates glowing walls, animations, soft lighting and music, plus an interactive wall known as the 'imagination light canvas'. What is remarkable is that no Philips diagnostic equipment involved, which is normally the case with Ambient Experience healthcare solutions. This was a solution intended to give visitors and staff an enhanced experience in many different areas of the hospital, including waiting rooms, examinations

and even the entrance hallway. Disney is famous for providing memorable and enhanced experiences for its customers, and that's what we helped them achieve in Florida.

Addressing all levels of society

What's also important to realize is that the kind of value design brings to the innovation process is not only applicable in developed markets. It is valid for the whole economic pyramid, from the top to the bottom. This means you can also address emerging markets, with an estimated size of 1.5 billion people and with an average purchasing power of between \$1500 and \$10,000 per year, as well as the 4 billion people who live in developing countries and who have a disposal income lower than \$1500 per year.

As long as you properly understand the context in which a product will be used, translate this information into insights, and then use these insights as the basis for conceptual propositions, then you have sown the seeds for improvement and innovation, whether it is for the rich or poor. In other words, the design-based approach we propose is applicable for everyone.

Chulha

At the start of my presentation I mentioned something about the program we had called 'Philanthropy by Design', and I'd like now to talk about the most successful example of the program so far, the Chulha. The Chulha is a smokeless, wood-burning stove initially intended for rural and semi-urban India. It is aimed at reducing the amount of deaths and respiratory illnesses caused by smoke inhalation from indoor wood burning stoves.

In order to ensure that it remains affordable for those who need it most, and to facilitate its local production and distribution, we allow local stakeholders to use the design specifications for free. So while this does not generate significant profits in the classical financial sense, it does build brand equity and trust, and also gives us valuable experience in new ways of co-creating value through cooperation with NGOs, local entrepreneurs and self-help groups for women.

Holistic innovation

Innovation in this case is therefore a broad term, because it includes things like the business model, the financial construction and the go to market. In fact it's probably more appropriate to talk about an innovation ecosystem, because there are so many aspects surrounding the product that are critical to its success and acceptance. It's a more holistic notion of innovation. It's not even connected with the idea of innovation as a new technological invention, because there are no electronics whatsoever in the Chulha. But nonetheless, it is unquestionably an innovation which improves the quality of peoples' lives.

The benefits of good design

I'd like to just recap on some of the things I've mentioned already. I'm sure all of you know about design in its traditional guise, where it was associated with aspects like color and styling. But what I wanted to tell you today is about how design is also a powerful strategic force that can drive your innovation efforts. It helps you understand the proper context of your activities, develop your competitiveness, become more customer-centric and mobilize your resources in a more effective way. It's a valuable ally in determining who you really are and in defining your core values and your promise. And it can really differentiate you in even the most crowded marketplaces.

The brand as a lighthouse

This last point is crucial. As a consumer, it can often be difficult to get a sense of direction in the vast sea of choice. You are free to go in every direction, but if you have no point of reference it is very difficult to plot your course. What is required is something like a lighthouse, shining brightly, showing you the way to a safe haven.

The brand is that lighthouse, and in theory the company behind the brand can make the light that comes from it as bright as it wants through advertising and PR. But ultimately the offer has to be credible. If your boat crashes on the rocks, and you feel you were led there under false pretences, you will not go back. The brand is therefore like a trust portal. Consumers who are prepared to commit themselves to that brand are looking for integrity, confidence and authenticity. And, as I have already pointed out, design plays a very important role in building this.

Asia leading the way

Before I go, I would just like to finish by talking about the region we all find ourselves in today. I feel that with the pace of change here in Asia, the hunger for renewal, the vitality of ideas and the seemingly boundless energy, you really do have the potential to take a leading role in how our world develops this century. Who knows, you may be able to mirror the 150 years of progress made in the West since the Industrial Revolution in the space of a decade. You can leapfrog many of the hurdles that proved troublesome in the past, tapping in to the accumulated knowledge and experience to blaze a trail towards a better future.

And if you feel this is the kind of challenge you want to take, then you should capture the value and power of Design so you can lead the way. Design can be a tremendous help, but only if you have already decided yourself that you want to innovate – that you want to be a shaper of the future rather than an observer. It's a choice that is in the hands of enlightened CEOs. And remember, the great and good companies will be remembered in the future as those who considered posterity, sustainability, quality of life and a better future for humanity. The choice is yours.