

Sustainability: a business opportunity

By the year 2040, only 15 per cent of the world's population will be living in what are now called developed countries. It's therefore essential for today's business planners to start focusing on the rest of the planet. Fortunately a strategy centred on emerging markets can be both financially profitable and socially responsible, says Barbara Kux of the Dutch multinational Royal Philips Electronics.

"Developing countries are a fantastic source of opportunities for companies," says Kux, who is a member of the electronics giant's group management committee.



"At Philips we try to position the whole sustainability issue as a business opportunity. Our energy-efficient lighting for example: this is the kind of technology that is key for developing markets, because it cuts the CO2 factor," she told INSEAD Knowledge on the sidelines of INSEAD's 2008 Leadership Summit on global citizenship.

"What we are doing is living out the mission statement written by the two Philips brothers when

they founded the company more than a century ago: apply technology to improve the lives of people."

To give shape to its strategy, Philips drew up a map of the world which highlights two different functions: on the one hand, well-being as measured by the Human Development Index (HDI); and on the other, the ecological footprint – the use of the planet, as Kux puts it.

At one end of the scale are the developed countries with high scores on both counts. Here the aim must be to maintain the HDI scores, but to reduce the ecological footprint through the use of cleaner technologies.

Then come the developing countries – with an estimated 41 per cent of the 2040 population – where the priority will be to minimise the adoption of old technologies and "let them leapfrog straight to new solutions," Kux says.

A third group comprises of emerging countries – with 44 per cent of the future global population – where the urgency is for clean solutions that cost as little as possible.

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Under its EcoVision 2012 programme, Philips aims to make 30 per cent of its total revenue from so-called 'green' businesses. In 2007, the figure was 20 per cent – or some 5.3 billion euros, which itself was up from four billion euros the year before.

The company also plans to invest one billion euros in green technologies and reduce the company's own carbon footprint by 25 per cent.



Under 'green' business, Philips includes anything from its energy-efficient lighting systems -- which reduce power consumption by some 30 per cent – to new MRI body scanners which use 18 per cent less power than conventional models.

"We measure (the green effect) in a very consistent way. And we audit it, which is how we get this impressive figure for green business revenues," Kux says.

Social responsibility also means ensuring that developing countries share in the success of companies that invest there.

Philips' policy is threefold: to create jobs and opportunities by the mere fact of doing business in these countries; to create research and development projects; and to outsource as much as possible its own purchases.

"Our sourcing from developing countries was 7.2 billion euros last year, and that also has a fantastic effect on the economy in these markets," Kux says.

But is there not a risk that with countries such as Brazil and India leapfrogging to new technologies, Philips might actually be giving a leg-up to future competitors? Only up to a point, Kux says.

"It is true that local competitors are entrepreneurial. They know their countries and their customers, so they do have sometimes a competitive edge," the INSEAD alumna ('84]) says.

"But if you do come with a technology solution, it's very hard for them to jump on that wave. A lot of our technology is protected. We have 80,000 patents at Philips. If you really want to develop a complex new technology, it's mostly also a patent game."

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