**CLOSING CASE**

**Koninklijke Philips NV**

Established in 1891 in Eindhoven, the Netherlands, Koninklijke Philips NV is one of the world’s oldest multinational companies. The company began making lighting products and over time diversified into a range of businesses that included domestic appliances, consumer electronics, and health care products. From the beginning, the small Dutch domestic market created pressures for Philips to look to foreign markets for growth. Some argue that this is the case for most European companies and, thus, the many companies from Europe that are globally competitive.

By the start of World War II, Philips already had a global presence. During the war, the Netherlands was occupied by Germany. By necessity, the company’s national organizations in countries such as Australia, Brazil, Canada, United Kingdom, and the United States gained considerable autonomy during this period. After the war, a structure based on strong national organizations remained in place. Each national organization was in essence a self-contained entity that was responsible for much of its own manufacturing, marketing, and sales. Most R&D activities, however, were centralized at Philips’ headquarters in Eindhoven. Reflecting this, several product divisions were created. Based in Eindhoven, the product divisions developed technologies and products, which were then made and sold by the different national organizations. During this period, the career track of most senior managers at Philips involved significant postings in various national organizations around the world (a career development practice often seen still in multinational corporations).

For several decades this organizational arrangement worked well. It allowed Philips to customize its product offerings, sales, and marketing efforts to the conditions that existed in different national markets. By the 1970s, however, flaws were appearing in the approach. The structure involved significant duplication of activities around the world, particularly in manufacturing, which created an intrinsically high-cost structure. When trade barriers were high, this did not matter so much, but the significance of its effect became important when trade barriers were starting to fall and competitors came in to the marketplace. These competitors included Sony and Matsushita from Japan, General Electric from the United States, and Samsung from South Korea. Each of these competitors gained market share by serving increasingly global markets from centralized production facilities where they could achieve greater scale economies and hence lower costs.

Philips’ response was to try to tilt the balance of power in its structure away from national organizations and toward product divisions. International production centers were established under the direction of the product divisions. The national organizations, however, remained responsible for local marketing and sales, and they often maintained control over some local production facilities. One problem Philips faced in trying to change its structure at this time was that most senior managers had come up through the national organizations. Consequently, they were loyal to them and tended to protect their autonomy.

The headquarters of Philips NV in Eindhoven, Netherlands.*Source: © Sander KONING/AFP/Getty Images*

Despite several reorganization efforts, the national organizations remained a strong influence at Philips until the 1990s. In the mid-1990s Cor Boonstra became CEO. Page 428He famously described the company’s organizational structure as a “plate of spaghetti” and asked how Philips could compete when the company had 350 subsidiaries around the world and significant duplication of manufacturing and marketing efforts across nations. Boonstra instituted a radical reorganization. He replaced the company’s 21 product divisions with just 7 global business divisions, making them responsible for global product development, production, and marketing. The heads of the divisions reported directly to him, while the national organizations reported to the divisions. The national organizations remained responsible for local sales and local marketing efforts, but after this reorganization they finally lost their historic sway on the company.

Philips, however, continued to underperform its global rivals. By 2008, Gerard Kleisterlee, who succeeded Boonstra as CEO in 2001, decided Philips was still not sufficiently focused on global markets. He reorganized yet again, this time around just three global divisions, health care, lighting, and consumer lifestyle (which included the company’s electronics businesses). These are also the three divisions that are in place under the most recent CEO, Frans van Houten, who became the CEO of Philips in 2011.

The slogan for the health care division is "creating the future of healthcare." Philips is a global leader in the health care domain. It is guided by the understanding that there is a patient in the center of everything it does in the field of health care, and its focus is on creating the ideal experience for all patients around the world, young and old. Philips Lighting is about "enhancing lives with light" by delivering innovative and energy-efficient solutions. The Consumer Lifestyle division is dedicated to "helping people achieve a healthier and better life."

The three divisions are responsible for product strategy, global marketing, and shifting of production to low-cost locations (or outsourcing production). The divisions also took over some sales responsibilities, particularly dealing with global retail chains such as Walmart, Tesco, and Carrefour. To accommodate national differences, however, some sales and marketing activities remained located at the national organizations.

*Sources: C. A. Bartlett, “Philips versus Matsushita: The Competitive Battle Continues,” Harvard Business School Case, December 11, 2009; “Philips Communicates Vision 2010 Strategic Plan,” Philips press release, September 10, 2007.*

**Case Discussion Questions**

1. Why did Philips’ organizational structure make sense early on in its existence? Why did this structure start to create problems for the company later on?
2. What was Philips trying to achieve by tilting the balance of power in its structure away from national organizations and toward the product divisions? Why was this hard to achieve?
3. What was the point of the organizational changes made by Cor Boonstra? What was he trying to achieve? Do you agree with Frans van Houten's decision to keep the same three divisions when he became CEO in 2011?
4. In 2008 Philips reorganized yet again, now down from 21 divisions to 9 divisions and subsequently just 3 divisions. Why do you think it did this? What is it trying to achieve?