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The fast strategy game

Nokia: strategic agility in action

Nokia's success in mobile telephony (who would have expected a rubber boot company springing from the barren fringes of northern Europe would come to lead the global mobile phone revolution?) was based on strategic agility.

As compared to most industry players, and to its direct competitors, Nokia developed a higher strategic sensitivity. When everyone saw mobile telephony as a professional service, Nokia's leadership saw mobile phones as consumer – almost fashion – products. Rather than predict five or ten percent maximum penetration rate, Nokia quickly imagined everyone in the world having one – or why not several? – mobile phones for personal as well as professional use. Deregulation and the licensing of new mobile service operators in many countries provided the market discontinuity that Nokia could thrive on. Where others saw mobile phones as a niche tool for mobile emergency workers – perhaps extending to taxi-drivers and fishermen – Nokia saw them as a mass consumer product. Nokia also escaped the dependence on traditional fixed network (monopoly) operators to foster and support the development of newly licensed entrepreneurial mobile service providers. As Jorma Ollila, now Nokia's Chairman, who led that development at the time, said:

The "planetary alignment" was right, a unique combination of trends and changes created a massive opportunity, but no one else saw it, or was able to capitalize on it.

Nokia's success in mobile telephony moved from imagination to reality through:

- an organizational flexibility that yields resource fluidity;
- a combination of a global approach to business building, bypassing the conventional wisdom of needing large national subsidiaries for international expansion;
- an emphasis on globally integrated business processes that provided the underpinnings for Nokia's accelerated growth in the late 1990s.

Nokia's executive team in the early 1990s was a bunch of young men and women with a lot of innovative potential, and their backs to the wall. They had to succeed. They had just lost a huge "captive" market with the fall of the Soviet Union. Survival instincts, combined with the thrill of building the first truly global company from Finland, drove them into becoming a tightly knit team capable of bold, fast, collective decisions.

Nokia's two major incumbent competitors, Ericsson and Motorola, were caught wrong-footed, victims of their own orthodoxies and organizations.

Ericsson's approach to the mobile opportunity was largely shaped by its core business of fixed networks. It saw mobile networks and telephones as an extension of its core business. It was dependent on established postal and telecom authorities, which had been its core customers for a century.[1] To serve them best, when they were national monopolies in closed markets, it had established a vast network of national subsidiaries, each with its own manufacturing division and often its own R&D, and Ericsson had tried to handle globalization by more recently connecting these subsidiaries into an integrated network.[2] These subsidiaries each held considerable resources and wielded much influence on their own, and, as a result, global integration had been slow. Decisions were made in complex negotiation and bargaining sessions among members of the top team and of the various subsidiary groups and did not always lead to swift action. So, on all three key dimensions of strategic agility – strategic sensitivity, collective commitments and resource fluidity – Ericsson was outmaneuvered by Nokia when it came to the mobile communication opportunity.

Motorola was different from Ericsson, but did not have an easier time. Its strategic sensitivity was shaped by its experience of serving professional markets, such as the police, the military, or fire departments, and by its fear of Japanese competition. Its attention was not on Nokia. Where Ericsson was geographically fragmented and very focussed on the telecom business, Motorola was worldwide but focussed on the US and Japan, with a rather diversified electronics group.

In both cases, the ability to make fast, bold, collective commitments was hampered, and resources were hard to redeploy. Table 1.1 summarizes these differences.

To reduce the above story to the cliché of entrepreneurial companies displacing dinosaurs would not be entirely accurate.[3] Nokia itself was a century-old conglomerate in forest products, cable, rubber products, chemicals, and consumer electronics. Thanks to the "neutral" status of Finland in Europe, Nokia had for long enjoyed a lucrative and protected

table 1.1 Nokia *vs*. Ericsson and Motorola in the early 1990s

	Nokia	*Ericsson*	*Motorola*
Strategic sensitivity	■ Mobile phones seen as a separate consumer-driven opportunity ■ A huge new opportunity to change the rules of the game ■ New operators	■ Infrastructure focus, "terminals as extensions" ■ Success of "AXE" switch to be protected and nurtured ■ Incumbent telco customers	■ Military/ professional mobile radio heritage ■ "Technical excellence" ■ Focus on Japanese competition
Resource fluidity	■ Little legacy, focus on new operators ■ "Born global" (for the new global business opportunity) ■ Cross-functional process organization with product programs	■ Locally rooted multi-domestic management structure ■ Focus of sales and support on traditional telcos	■ Public sector customers ■ US-driven autonomous business units ■ Diversified electronics group
Collective commitment	■ Integrated business ■ Young, tightly knit top team ■ Survival instinct (USSR crisis)	■ Subunit advocacy ■ Senior, very experienced top team	■ Subunit advocacy ■ Senior, very experienced top team

position as a leading “gateway” in the technology and raw material trade between the Soviet Union and the West. It had been in mobile telephony since the 1970s, and bet on GSM digital systems and handsets only in the early 1990s. Ericsson was a technology powerhouse, with an unbeatable market presence around the world. But where Nokia created a new business model – offering turnkey “end-to-end” solutions to new, specialized mobile service providers – Ericsson responded (mainly) through its existing business model: mobility services as an additional niche offering for the traditional fixed network operators that its many national subsidiaries served so well, and mobile “terminals” as an appendage to their networks.

> **“strategic agility is about the capability to think and act differently”**

Strategic agility is not about the vitality of small new entrepreneurial firms challenging tired incumbents, but about the capability to think and act differently, leading to new business model innovations: How well do incumbent companies change their business models? How fast? How do mature companies, like Nokia in the 1980s, invent new businesses and imagine new business models? How do companies such as Ericsson or Motorola, leading companies, the strategic agility of which would naturally deteriorate with maturity and industry leadership, maintain or regain strategic agility?

From agility to rigidity

The questions are relevant because companies naturally become victims of their own success: as they grow and become successful they lose some of their adaptive capacity. The search for efficiency drives flexibility out. Success dulls strategic sensitivity. The legitimate short-term challenges of scaling up, and of managing fast, profitable growth from quarter to quarter, reaping economies of scale in the process, lead to a narrow focus on core growth businesses, a mix of tunnel vision and strategic myopia. Ericsson’s remarkable success with the AXE digital switch in the 1970s and 1980s led to such difficulties; so did Motorola’s focus on professional mobile radio. Existing core businesses – such as fixed line networks in Ericsson’s case – become prisms or filters, through which new opportunities are seen by a top management team whose experience is mainly with the core business. Such experience leads to good snap judgments in the existing businesses, and justified self-confidence, but may not provide reliable guidance in new fields.

Resource fluidity also deteriorates over time. The structuring of functions, subsidiaries, business units, and product divisions naturally traps resources. Business models and activity systems are optimized, or adjusted to fit current conditions, and become more tightly defined and strongly structured.[4] Efficiency gains over flexibility, for good reasons. The lock-in of close relationships with key customers – in both Ericsson's and Motorola's cases – hid key market environment changes, and the hubris of their successes led them to discount the possibility of disruptions.[5] Close collaboration with suppliers and partners also turn into "ties that bind", not so much contractually as with a company's perceptions. Customers, suppliers, and partners drive what top management perceives, and crowds out – from busy agendas and spans of attention – new trends and potential disruptions. Companies can lock in on a sense of who the competition is as well. While focussed on Japan as a competitor, Motorola – the major early innovator in mobile telephony – let Nokia grow, seeing it as an ally in a common cause, only to discover later it had let the genie out of the bottle.

Collective commitments – the implicit agreement of people in the same company to work together toward a common end – also become more difficult with success. First, new challenges may not offer the same thrill as the company's initial success. "What to do for an encore?" is all too real a question for tired heroes. Second, growth, success, and formal structures lead to specialization: experts of different functions, areas, product groups, defer to each other about decisions. As a company grows, and perhaps recruits seasoned executives from the outside, its managers grow by "being in charge", a pattern often carried all the way to one-on-one relationships with the CEO. Collective commitments are replaced by individualized negotiations. Lieutenants turn into barons.

The Appendices provides a detailed assessment grid, and more specific descriptions and analyses of the toxic side-effects of growth and success. Let it suffice here to say that strategic agility should never be taken for granted; it all too easily turns into rigidity.

Indeed, most companies fall prey to the toxic side-effects of growth, success, and industry leadership. Once these have set in, change and renewal become difficult, painful, and periodic exercises. These tend not only to be disruptions at the top (to introduce change, the board hires a new CEO, who brings in a new executive team), but also throughout the organization. Because change takes place in response to a felt crisis, usually characterized by deteriorating performance, it most often results in restructuring and lay-offs and in the dispersal and squandering of key competencies and capabilities. Over time, such changes breed growing cynicism and skepticism in middle management ranks and an increasingly serious weakening of the corporation's renewal capabilities.

Strategic agility – as an ongoing capability for real-time strategic sensitivity, quick collective commitments, and fast and strong resource redeployment – is an antidote to the pain of repeated sequences of success, slowdown and rigidity, crises, and renewals.

The very phrase "strategic agility", or for that matter "fast strategy", may be seen as an oxymoron, a contradiction in terms. The idea of strategy formulation followed by implementation, feeding periods of calm continuous effort, punctuated by episodes of soul searching and upheavals is more common. As will be seen, strategic agility results from a mix of stability in processes and people, in values and aspirations, and of sensitivity and flexibility in perception, fluidity in resource deployment, and leadership unity in making collective commitments.

The cost of such cycles of success, rigidity, crisis, and renewal is simply no longer affordable. It is not affordable at the top; CEOs cannot and should not live in fear of the shareholders and the board abruptly ending their tenure. The cost of induced short-term thinking is enormous. It is not affordable throughout the organization; fears of lay-offs and giving one's best to an organization don't go well together. Thriving at work calls for development, trust, and medium-term learning. Major companies are also repositories of critical skills and capabilities, particularly in R&D, that need sustained nurturing. Alternations of periods of feast and famine simply don't allow these skills to flourish, or even to survive.

"strategic agility is needed today first and foremost by the most knowledge-intensive companies"

To avoid the pain and cost of these changes, strategic agility is needed today more than ever, and first and foremost by the most knowledge-intensive companies. Let's see why.

Strategy – as we knew it – is dead: welcome to the fast strategy game

Olli-Pekka Kallasvuo, Nokia's new CEO, commented on the nature of strategy as follows:

Five to ten years ago you would set your vision and strategy and then start *following it. That does not work any more. Now you have to be alert every day, week and month to renew your strategy.*[6]

Steve Steinhilber, Corporate Vice President Strategic Alliances at Cisco, another company we researched, paints a more vivid picture of the same reality:

Think of it like competing for an Olympic gold medal. It used to be you would pick a race that fit your innate skills – say [the] 400 meter race – you would train for years, compete, make it to the final . . . and you could train again for four years, punctuated by world championships and other races, and perhaps win the medal. And it was likely that for a dozen years you would compete more or less against the same few competitors. Today you enter a race which you believe fits you, but after the first lap you are told this is not 400 meters but 5000 meters, and you go out of the stadium . . . and you find someone new racing alongside, who just tells you: "It looked like an interesting race going by, so I just joined". Everything is unpredictable . . . five years ago could Nokia really have expected Apple to be the main threat to their high end phone business?

Strategy, as we knew it, was based on foresight, on anticipation, the chess master's ability to see many moves ahead, where his lesser opponent sees only a few. But foresight is only as good as an ability to understand and map out an environment and anticipate its evolution. In fact, traditional strategy making assumed a detailed understanding and some control of the corporation's environment. Some companies today in the ICT industry are perhaps still in this position.

But, in fact, among the companies we researched, only one jumps to mind: Intel. And Intel is a special case. Intel is perhaps unique in its ability to guide the co-evolution of its offerings and of its customers'.[7] Intel has, for two decades, relentlessly driven the evolution of computing power down a very predictable trajectory of semiconductor density increase, cost reduction, and performance improvement. It coined and followed the now famous "Moore's Law": The power of microprocessor technology doubles and its costs of production fall by half every 18 months. A unique combination of R&D skills, of product architecture and process efficiency, plant ramp-up skills (to bring yields to profitable levels quickly), willingness and ability to commit massive investment resources to new plants, and, more recently, thoughtful attention to ecosystem development, earned Intel the sustained ability to lead the microprocessor industry, and to set the pace of personal computers' evolution. AMD, originally an Intel licensee that then pursued its own product and process development efforts, challenged Intel on several occasions, but did not succeed in wrestling leadership from it.

Massive investments, long development cycle times (Intel has to anticipate "usage models" years and years in advance), and growing technical challenges (e.g., with higher and higher circuit density, cooling and power consumption became big issues) call for Intel to retain an ability to plan reliably and, hence, to influence its environment. So, strategy as we know it still largely applies for Intel. Not so for others.

Very few companies indeed are in Intel's privileged position. Few can rely on something as predictable as Moore's Law, and even fewer can deploy massive resources to follow it. Fewer still can exercise the level of control on or purposeful co-evolution with its environment as Intel does. Most are in Cisco's position: entering undefined races, over unpredictable terrain, against unknown competitors, toward no arrival line.

In this new fast strategy game, strategic planning – and the comfort of "scenarios" on which to anchor plans – no longer works. In fact, planning scenarios are downright misleading. Insight needs to replace foresight. The game you play appears only over time, as when you assemble the kind of puzzle where how a piece fits is slowly discovered as more related pieces are found, and assembled. In these emerging strategic situations, fast pattern recognition, rather than accurate strategic scenarios, becomes key. The world around us keeps emerging, and our perception of it keeps reshaping itself as we play. Some of our pieces will fit the puzzle, other won't. If you are fast in fitting pieces, the overall structure of the puzzle will evolve your way: you create your own future and shape the markets and the competitive landscape to your advantage. It is not just specific opportunities that are emerging, propelled by the learning from new ventures and special projects, but the overall structure of where and how they might fit together. We need a new way to strategize, both more opportunistic and more strategic, the more and the faster changes take place.

Industry boundaries – as we knew them – are dead: usher in the era of convergence

Major destabilizing forces have been at work in the last few years; they have eroded industry boundaries in unprecedented ways.

Digitalization

This has affected not only the information, communication and entertainment industries, but also the way companies in all industries manage supply chains, sales, marketing, distribution, and logistics. In many cases, digitalization of

"major destabilizing forces have eroded industry boundaries in unprecedented ways"

information has completely redefined the asset and capability mix that companies need to have in order to compete in their industries, thereby eliminating long-standing barriers to entry and allowing companies from hitherto quite separate industries to compete. The music industry is a case in point. For decades, the dominant players were EMI and RCA, and more recently Sony Music, which had built up the assets and capabilities needed for recording, manufacturing, and distributing vinyl records and cassettes. In today's digital world, however, companies like Apple, which have none of the traditional music industry capabilities, are becoming leading players. Business models of incumbent music firms become obsolete almost overnight.

Globalization

Competencies and competition are increasingly distributed around the globe.[8] Accenture and IBM face the emergence of new major, and very fast-growing competitors, who create new business models to exploit dispersion and globalization, like Infosys' Global Delivery Model for large system engineering software, which not only provides lower cost but also higher quality. After years of efforts to transform itself, IBM finds the benefits of successful transformation eroded by new competition. Infosys, Wipro, Tata Consulting Services, and a bevy of Indian followers may win out.

Deregulation

Public policy-makers were often watchdogs of industry boundaries. In the US, for instance, banks could not participate in other financial services, nor be investors; or long-distance communication service providers had to be distinct from local telecommunication companies; and there were endless numbers of other examples. In many countries, the allocation – or auction – of radio frequencies constrained the path of mobile communication development. The world was full of protective regulations. Geographic protection was also rampant, from airline ownership in the US to the imposition of joint venture partners in China. A number of international bodies, from the World Trade Organization to the European Commission, have tirelessly been chipping away at these. Many governments have also recognized the virtues of deregulation and abandoned their protective armory.

Taken together, and they often interplay with and reinforce each other, these three major forces – digitalization, globalization, and deregulation – widen strategic arenas.

Wider playing fields, players focussed on core business

Within these expanded spaces in which to compete, companies are buffeted by contradictory forces that drive them to focus more sharply: ecosystems and alliances, shareholders, and the limits to their own competencies conspired to force focus on core businesses.

The ecosystems revolution

In a rapidly growing number of industries, customers are not interested in a given product *per se*, but in a solution to a problem, or in an experience. IBM's business customers, for example, buy complete "business improvement solutions". Purchasers of Nokia's phones aren't particularly interested in the phone as a device but rather in the experiences it can afford them – the ability to take and send a picture spontaneously or to speak to a loved one at any time and place they want to.

In a paradoxical way, the needs of customers for integrated solutions led companies to realize they could not meet these fundamentally different expectations on their own. This, in particular, has prompted the recent wave of alliance formation and the currency of ecosystem thinking. In turn, this allows individual firms to see themselves increasingly as providers of a particular piece of a complete ecosystem, and to focus on delivering that piece outstandingly well.

The shareholder revolution

Shareholders' interests, and investments, are increasingly represented by fund managers. Not only do they put more demands for performance on management – after all, their heads are on the block too – they also prefer the simpler valuation of "pure play", and the allure of growth stocks. This means that companies need to be more focussed, and their leaders need a good growth story to tell. The combination leads CEOs to concentrate on core business growth.

For companies involved in multiple businesses, a good model for value-creating interdependencies across businesses, and a compelling logic for how corporate management adds value by keeping all its businesses "under one roof", become essential.

In other words, CEOs and corporate management teams have to worry about two layers of value creation and develop a very articulate and compelling rationale for both:

- the quality of the business model for each of the businesses within their company;
- the value creation logic of the corporation as a whole, i.e., what value does belonging to a common corporate group add to the value that each business can create individually? This may involve operational integration of certain common activities, such as logistics and manufacturing; the exploitation of shared intangible assets, such as corporate brand and the reputation that goes with it; and opportunities for coordinated strategic action and integrated approaches to common customers.

For instance, during its period of fast growth, through the 1990s, STMicroelectronics had a robust corporate value creation logic: to develop its expertise in "system on a chip" design of integrated circuits. It brought diverse technologies to difficult-to-develop chips combining digital signals (the way computers work) and analog signals (the way human beings work). It became a lead supplier to companies, ranging from Seagate in disk drives, to Nokia in mobile phone modules, and to Hewlett Packard in inkjet printers' cartridges. Each of these applications benefited greatly from the competencies and the reputation built in pursuing other innovations. STMicroelectronics' value creation logic added nearly $12 billion to shareholders' wealth. It was entirely built on lateral exchanges, such as cross-learning and shared capacity management between business areas.

Short of developing such a compelling integrated corporate value creation logic, CEOs and their business group heads will face growing pressure from shareholders and private equity investors to split their companies.

The core competence revolution

First articulated explicitly and popularized over a decade ago by C.K. Prahalad and Gary Hamel,[9] core competence thinking has since gained increasing currency among corporate leaders. In short, core competence thinking stresses that companies should focus on a few distinctive competencies[10] that can be redeployed and leveraged from business to business and provide for dynamism in market entry and exit by reducing the cost of resource redeployment. The classic example among the companies we researched is Canon. Its core competencies were first confined to optics and the micromechanics needed for cameras. But they quickly expanded to imaging, electronics, printing, and other related areas of technology, as well as to channel management and indirect distribution systems. This allowed Canon to create new businesses – such as small-office personal copiers – and to gain leadership in business after business, from photocopiers and fax machines to microlithography. Core competence thinking has led firms to focus on a few related business areas, and seek a corporate value creating logic that leverages these precious few competence areas as widely as possible, but avoids straying too far from them into businesses where they would not apply.

Taken together, the two sets of forces create strategic tensions. Digitalization, globalization, and deregulation triggered wider strategic discontinuities, did away with defined strategic arenas, widened the playing field and opened the game, creating the unpredictable races, the shifting rules Steve Steinhilber worries about. On the other side, customer focus, the allure of "pure play" companies (focussed on a narrow market segment), and the concentration on core competencies drive companies toward narrower core business focus.

"while the field of battle is wider and wider, the need for focus and integration is greater and greater"

In other words, while the field of battle is wider and wider, with the fall of industry boundaries, the need for focus and integration in the deployment of one's efforts is greater and greater. Customers demand integrated solutions, not disparate product assortments; shareholders call for a compelling integrated corporate value creation logic that justifies keeping the firm's assets together (rather than breaking it up) and its leadership in unified command. Core competence thinking provides an attractive framework for that leadership to address shareholders' and customers' demands.

So, strategic agility can no longer be achieved by what has historically been its simplest form, or mean: dynamic business portfolio management. It used to be a really simple game: reposition the company by buying and selling businesses, and bring management quality and discipline to the management of each separate business unit. This, after all, was at the heart of Jack Welch's success at General Electric. Leading the diversified multidivisional company could largely be done from the CEO's office, with the support of good dealmakers, strategists, lawyers, and investment bankers. Management selection, development, and succession received great attention from the top, as did the development of management tools, but other areas were largely delegated to business unit leaders. These were submitted to periodic business reviews and personal assessments.

Today's true test of strategic agility is not portfolio restructuring but rather continuous redirection and/or reinvention of the core business without losing momentum. The conventional wisdom supported by a lot of management literature suggests that separate corporate venturing or evolving into so-called ambidextrous organizations would provide us a solution for this challenge. The key argument in both of these approaches is to let new businesses develop on their own conditions. The corporate value added in these approaches comes from high-level financial and management support. At best, top management can shift resources from one unit to another and speed up the development of new opportunities. However, the challenge with both of these approaches is that they negate the core strength of large companies: capability to leverage massive resources for a breakthrough. Bringing Silicon Valley inside the firm[11] sounds good but represents only half of the truth. Fragmentation into smaller entrepreneurial units improves agility but it gives up strategic strength. This is particularly problematic for large incumbent companies whose new businesses need to scale up fast to have a noticeable impact at the corporate level.

So, the paradox of strategic agility – insight replacing foresight, and integrated corporate value creation logics substituting for decentralized management — creates higher order demands on corporate leadership. The strategically agile company at the same time needs to be fast and integrated. How to address these demands is the heart of this book.

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