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## **FINLAND NEEDS NOKIA'S AGILITY**

Nokia is revamping its organization again, effective January 1<sup>st</sup>, 2008. Change agent Mikko Kosonen is spreading the agility gospel everywhere in Finland.

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"Please, don't write about Nokia only. This is about every company and the overall society as well", says Mikko Kosonen in his office at the top of Sitra-tower in Helsinki (Sitra = The Finnish Innovation Fund). In summer 2007, Dr. Kosonen, formerly Nokia's Chief Strategy and Information Officer, was appointed Sitra's Executive Vice President and head of its new Innovations and New Solutions unit.

Far below us, we see the heavy afternoon traffic on one of Helsinki's main arteries to the West. Kosonen points the lights of Nokia's research center, located nearby, admitting: "Nokia is the role model for those changes that we need in Finland. We need similar strategic agility and leadership style in all companies as well as in the public sector."

Kosonen knows what he is talking about. After all, he did spend 23 years in Nokia. Furthermore, Nokia features prominently as one of the key corporations in *Fast Strategy*, a new book co-authored by Yves Doz and Mikko Kosonen. In the book, they explain how successful global ICT-companies such as IBM, Intel, Hewlett-Packard, Cisco and Nokia have been able to thrive in turbulent environments by devising and adopting new strategies, structures and leadership practices. Common to these companies is their ability to transform themselves and simultaneously stay profitable, year after year.

Kosonen and Doz also wanted to find out why some major ICT-companies like Digital Equipment and Compaq did not succeed but disappeared. "Companies don't die because they do wrong things. They die because they keep doing what used to be the right things for too long", says Kosonen.

## **The agony of creating new**

Yves Doz is an internationally acclaimed professor of technology and innovation at INSEAD, the elite French business school. His first contact with Nokia was in 1993, when he lectured to Nokia's top management about global leadership practices. At that time Jorma Ollila had just begun as Nokia's CEO. Doz has taught also at other Finnish companies and is an occasional visitor at the Helsinki School of Economics (HSE).

Kosonen and Doz's joint research project took three work-intensive years. Kosonen remembers to have had – “regrettably” - more dinners with Doz than his wife. “This was absolutely the most strenuous time in my working life. Sometimes, we had doubts about whether we really have something new to say. When that became evident and we learned that our message is important, we had to turn it into a book. Creating something new is often very painful. But it can also be very rewarding”, says Kosonen.

He tells having “drifted” to Nokia when he was preparing his licentiate thesis on systems business. In 1991, Kosonen defended his PhD dissertation on the same theme. At that time, due to the collapse of the Soviet Union, Nokia's telecommunication group was winding down its Soviet businesses and searching new markets. Kosonen's dissertation provided good support for Nokia's strategic redirection. “For a while, I was able to move away from operative responsibilities and take a broader look at how things are done elsewhere. This was good for the company and an important learning experience for me personally.”

Kosonen was appointed Head of Strategy, first at Nokia Telecommunications Group, and later, in 1997, for the Nokia Corporation. A year later his responsibilities grew to cover Nokia's information systems, as well. This implied a strong role in Nokia at a time, when the corporation was creating a global strategy and a uniform operating model enabling fast changes.

In 2005 Kosonen was able to take a research leave, agreed earlier with Ollila. Once again, he wanted to broaden his perspective and find out how global firms can thrive on change. Doz got immediately interested in a research project on strategic agility.

Last year, having ended his research leave, Kosonen came back to Nokia to apply his new research findings in practice, this time as senior advisor to Nokia's top management.

### **A crisis means an opportunity for Finland**

“When Esko Aho [Sitra’s President and former Prime Minister of Finland] called me and offered this job, I did not think long. This is a very alluring challenge”, says Mikko Kosonen. As the head of Sitra’s Innovations and New Solutions unit, he is in the unique position to apply - nationwide - the knowledge he has obtained at Nokia and through the findings of his research.

“Competitiveness is not just about products and technologies. Increasingly, it depends on innovative managerial practices. The basic mechanisms of strategic agility are the same everywhere. The question is, how to stay awake all the time, how to keep resources fluid, and how to make sure that key executives stay united and are able to make collective decisions”, explains Kosonen.

The new line of thinking is critical. Very few organizations are able to renew themselves without first having to go through a crisis. Also Nokia was close to the brink in early 1990s.

IBM was one of the case firms in the *Fast strategy* study. At the beginning of the 1990s, it was in a deep trouble. In fact, it probably should not exist anymore. “At that time, IBM was a massive conglomerate. Today, it is something quite different. IBM has adopted in an exemplary manner many of the best practices that we believe a strategically agile company must deploy”, says Kosonen.

In the 1990s, also Finland has changed because she had to. “At present, Finland appears to be drifting towards a strategic crisis again. From where we are now, it is not that far to a true economic crisis. We should act wisely now and change before it is too late. We must adopt fundamentally new ways of working based on new technologies”, says Kosonen.

On the other hand, he stresses that crises always mean new opportunities and this crisis is no exception. Finland is the first Western country to face - head-on - the problems created by an aging population. “If we can devise new, efficient ways of working to solve them, we will become a true pioneer, a welfare state 2.0.”

One of Kosonen's new responsibilities is to coach Finnish companies in enhancing their strategic agility. Sitra has, e.g., a development program for metal and machinery industry. Its goal is to create more competitive subcontractors and supply networks (Talouselämä 42/2007). "We must not allow the subcontractors and subsystem suppliers of this industry to face the same problems as subcontractors in the electronics industry have already faced. Our goal is to create new global players. This means we must identify the most promising firms in this industry and help developing them. We also need new operational models between the end product companies and their subcontractors", explains Kosonen.

However, the Finnish forest industry faces the most serious situation, requiring fast transformation. "They have neglected renewing themselves. They have not built the competences, which are necessary for sustained strategic agility. A firm must invest when the going is good. Otherwise it cannot ensure that it stays farsighted and agile and thus resilient", says Kosonen. He reminds that the underlying strategic logic that governs the ICT-industry increasingly applies to other industries as well. The business environment everywhere is becoming more complex and turbulent, with faster technological changes.

### **Nokia as a leadership model**

The name of the Doz and Kosonen book, *Fast strategy*, does not imply that firms should change their strategies quickly. The message is almost the opposite: if a firm continuously observes external changes and adjusts its strategy and structures accordingly, there is no need for dramatic strategic changes. Only when one looks at the company from a distance and over a longer period of time, one can see how large the change has been.

"The traditional strategy doctrine says that large firms should renew themselves by revamping their business portfolios. When one business matures, you just divest that and enter a new one. Such views are antiquated. Capital markets have taken over the mere corporate portfolio management. You just cannot lead a company by studying performance reports any more. Today, you need to "hands-on" develop the corporation as a whole", says Kosonen.

Also, Nokia has learned a lot in the hard way. For example, in late 1990s it launched a new group called New Ventures Organization. Its mission was to create a "third leg"

to Nokia, beside its two core businesses, mobile phones and networks. Because such a new area was not immediately found, many considered the initiative a failure.

Kosonen sees this development differently: “That was not the case at all! New, risky initiatives bring invaluable new learning and understanding for gradually changing core business.”

At the beginning of next year, Nokia will have a new organization, again. At the outset, the change does not appear a major one. The underlying directional changes began already about five years earlier. First, Mobile Phones adopted a new organization in 2002. In 2004, the whole corporation was organized as a matrix structure.

The gradual evolution process has also helped Nokia’s personnel to stay well abreast of the changes. First, the business focus began to shift from mobile phones towards multimedia-devices. In the future, digital services will play increasingly important role.

From January 2008, Nokia has three major units. The Devices is responsible for product portfolio and the Markets for logistics, sales and marketing. Services & Software unit focuses on internet-services, expected to offer huge growth opportunities in the future.

The new changes will be psychologically easier than those of 2004. At that time, by adopting the matrix structure, Nokia took first steps toward a new management model, heavily built upon mutual dependence. According to Kosonen and Doz, organizational and managerial interdependence is one of the preconditions of strategic agility.

“The change in the ways of managing and thinking is immense. Now, leaders of the business groups do not directly control the resources needed to achieve their goals any longer. Key issues cannot be anymore delegated to business groups but they must be made collectively at the corporate level”, explains Mikko Kosonen.

### **Removing the CEO from the pedestal**

There are several other global corporations such as SAP, the German systems software developer, and Cisco, the US router manufacturer, that have adopted similar leadership practices. When each member of the top management team is in charge of one phase of the full value chain they need to act as a team”, says Kosonen.

To be able to change direction, a company's management needs a shared vision. According to Kosonen, very few major Finnish firms have in their organizations the capabilities needed for strategic agility. Also at Nokia before 2004, business group leaders were autonomous. "Independent business groups are OK as long as the market is stable. But they do not fit into today's business environment, where emerging growth opportunities continuously challenge the established organizational boundaries", reminds Kosonen.

Also the skills required from key managers need to change. The ability to make decisions alone, independent of others, is not a virtue any longer. You have to be able to collaborate. "There should be no individual rivalry within top management with promoting their own interests", Kosonen says. Thus, IBM for example emphasizes collaboration skills when training and educating its management talent. IBM also actively rotates managers internally. In this way their managers have a good understanding of each other's work, when they enter top echelons. Furthermore, IBM has removed CEO from the pedestal. IBM's CEO does not always chair top team's meetings. Thus, other members will have to shoulder more of the total responsibility.

"Finns value managers, who make unambiguous, fast decisions. We sometimes ridicule Swedes for their seemingly endless discussions preceding decisions. As a result of my research, however, I've begun to see the benefits of the Swedish management style. It is important to have a proper dialogue and to understand others' viewpoints before commitment", says Mikko Kosonen. He remarks that in Finland it often happens that the decisions are indeed quick and visible, but people do not become committed to them. Therefore, the critical execution of decisions suffers.

"In general, top managers in large Finnish companies do not have the necessary attitudes and skills required to operate as united teams. In public organizations, the situation is even worse. Governmental ministries and departments operate like silos, living their own secluded lives. It then becomes the challenge of the political cabinet to try to make them work together." Kosonen thinks that the new combined "Ministry of Employment and the Economy" has an historic opportunity to introduce a new leadership culture and practices in Finnish public sector.

## **Firms as Fruit Flies**

Kosonen and Doz decided to focus on ICT-companies for the same reasons why genetic researchers often study fruit flies. New fly generations are born rapidly and there are a lot of mutations.

“There are people who say that our ideas are beautiful, but not relevant to “their” companies. I would suggest there is a lot of relevance. These ideas are universally applicable. I recently talked with an SME-owner-manager of a company with 30 employees. He said that his company has all the symptoms of stagnation I had described”, told Kosonen.

Some managers also defend their stagnant positions by referring to heavy investments. They are implicitly suggesting that investment-intensive industries cannot be agile by definition.

“One should take a good look at Intel. Intel must make huge investments, but they also have the wisdom and capabilities to ensure that there will be a market for the products flowing from those investments. Intel has been unique in developing mechanisms, which enable it to create markets and to influence what its customers will want in the future”, Kosonen says. So, there are different types of agility. A firm can be strategically agile if it thoroughly understands its role and position in its value chain and takes appropriate actions to minimize hindrances implied by that particular position.

### **What is strategic agility?**

\* The ability to redeploy resources quickly and use them efficiently.

Main barriers: resources become locked in business units; specialized, unit-level only processes and systems.

\* Management perceives and recognizes opportunities and threats in a fresh way and reacts quickly.

Main barriers: dominance of core businesses, rigid management thinking, tunnel vision.

\* Top management team’s dialogue in decision-making; a united team with collective commitment.

Main barriers: autonomous business units, the allure of power and personal success, inflated egos; reliance on rigid specialization and beliefs in “expert decision-making”.

### **Right ideas, wrong style**

In the foreword of their book, Mikko Kosonen and Yves Doz mention that one of the questions they wanted to clarify was whether Hewlett-Packard’s former CEO, Carly Fiorina (who was fired after a prolonged bitter shareholder fight), was right after all. Well, was she?

“She was, at least to a large extent. Her follower CEO Mark Hurd has not really made any major changes in the firm’s strategy or in its organization. However, it may well be that Ms. Fiorina was not the right person to lead HP’s change process. Hurd has taken charge in a more concrete style, hands-on, and that is what a CEO of a strategically agile company must do. You cannot lead simply by reading reports and by lecturing about visions. One must dive deep into the business itself”, says Mikko Kosonen.

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