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NOKIA, OYJ

A Case Study about the Impact of Communication on Innovation

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Introduction

In 2006, Fappe Berglund* loved going to work. He was proud to tell people he developed software for Nokia and often received celebrity-like treatment throughout Finland. Wherever he went, people were using phones running Symbian, the mobile operating system he helped to create. Little did Fappe know how soon his stardom would disintegrate. On June 29, 2007, Apple released the first iPhone, which rapidly transformed the entire phone industry and challenged Nokia's market dominance.¹

Despite the iPhone's growing popularity, Nokia continued to focus on creating the highest quality hardware, leaving software as an afterthought. Fappe, however, knew that Nokia needed to incorporate new, innovative features to remain competitive. He pleaded with management, "Let my team show you software is important. Give us a year to build an application store and build a wall between us and the competition." The approval committee, which operated bureaucratically, would retort, "Nokia does not pursue insignificant, novel software features. Next time, please submit an opportunity with a large, immediate payout for consideration."

Remaining steadfast in its ways, Nokia watched its market share plummet at an alarming rate. In a panic, Nokia issued a notice to employees: "Over the coming weeks, resources and funding will be shifted towards teams that enjoy the most immediate success. Good luck!"

Fappe, now fearful of losing his job, pushed management even harder to allow his team to develop riskier features but with immediate payout. Several months later, management finally granted his request. By this point, however, the first-mover advantage was gone. Nonetheless, Fappe's team rushed to put together the new features that Fappe had envisioned before they were rendered obsolete. They quickly sent the completed update to the hardware team, at which point things began to go terribly wrong.

The hardware team had complete freedom to change any feature of the phone before it went in to final production. They decided to reduce the memory for the software to 25 percent of the specified allocation, unaware that the operating system would suffer as a result.² Then, when software errors delayed the phone's release and third-party developers refused to release apps for Symbian (an open-source platform used predominantly by Nokia), the blame was put on Fappe, further reducing his team's available resources.

At this point, Fappe's frustration peaked. He was flown to Mainz, Germany, where he and 100 other senior engineers spent several days strategizing and proving why their teams should continue to be funded. At one point Fappe spoke out, "Look everyone, we're spending more time fighting politics than doing design. If Nokia will ever be as great as it once was, we need to actually produce a phone and it had better be a phone that's smart."

Soon thereafter the company's recently appointed Canada-born CEO, Stephen Elop, issued a company-wide memo nicknamed "The Burning Platform," in which he foretold the end of Symbian, among other Nokia platforms.

*Fictional name used to personify the situation and illustrate the type of issues some in this position would experience.

Layoffs at Nokia then began by the thousands.³ Fappe started to feel more like a politician than a software engineer. He spent most of his time ensuring his team continued to receive its allocation of the company's budget. To add to that, he was now looked down upon as a significant reason for the company's decline. Fappe had had enough and exclaimed, "How can this company's slogan possibly be 'connecting people'? I can barely keep my own team together let alone get any work done." And with that he retired early. As many talented employees were laid off or left, Nokia began the struggle of reasserting its market dominance.

Company Background

By the late 1900s, Nokia, OYJ (the Finnish equivalent of INC) had been well established in electronics and mobile telephones. It had become involved in many different markets through a number of acquisitions and its innovative history. Some notable creations were:⁴

- First electronic device in 1962, which was used in nuclear power plants
- Development on radio telephones in 1963 for army and emergency services
- First car phone in 1982, called the Mobira Senator
- First handheld mobile phone in 1987 called the Mobira Cityman
- Global System for Mobile Communications, which could carry data as well as regular voice movement
- Nokia 1011 mobile phone, which blazed the path to newer phones because it could send and receive SMS messages and could hold as many as 99 phone numbers in its memory

In the late 1990s and early 2000s, Nokia was the world's number 1 mobile maker. Nokia phones were so common that "Nokia" was almost synonymous with "mobile phone." The company had established itself as a world leader in mobile sales. Between 1996 and 2001, its turnover (annual sales) increased from € 6.5 billion to € 31 billion. For several years, it had struggled with failed product launches, financial problems, and some organizational changes internally. However, Nokia has endeavored so far and has continued to try new products, though it is hindered by internal politics and reorganizations. For example, in 2003 the company launched its Nokia 1100 handset, which was the best-selling mobile phone of all time and the world's top-selling consumer electronics product.⁵

Some major changes in the recent history of Nokia include:

- In 2006, Nokia and Siemens AG announced a partnership, creating Nokia Siemens Networks. This merger was to combine the mobile and fixed-line phone network equipment businesses.
- From 2006 to 2012, Nokia acquired companies like Twango, Enpocket, Navteq, Cellity, Meta Carta, and Smarterphone. These companies are of various market segments, such as software, mobile web browsing, and a developer of an operating system for feature phones.
- In 2011, Nokia's CEO Stephen Elop announced an alliance with Microsoft. This effort would lead towards development of smartphone technology.⁶

With its innovative past, Nokia was the world's leader in mobile phones for 14 years. It sold its billionth phone in 2005 just as other mobile device companies were on the rise. A turning point came when Apple released its first generation iPhone in 2007, changing the landscape in the smartphone segment.

However, the company was facing threats due to the inability to produce competitive devices for the smartphone market. In 2009, Nokia faced its first quarterly loss in more than a decade. By 2010, Nokia's first quarter loss rose to €929 million, and mobile device sales were down 24%.⁷ Losses are directly correlated to the rise of new operating systems like Google's Android and Apple's iOS. In the years following these struggles, Stephen Elop, a former Microsoft executive and Nokia's first non-Finnish CEO, was hired to turn profits around.

Elop's job was to streamline operations at Nokia by cutting costs to create products that are more competitive. Another task for Elop is to reform Nokia's strategy. The new alliance with Microsoft to use an operating system made by another company marks a turning point for Nokia. It has plans to release the new Lumia 920, a smartphone that runs the Windows Phone 8 operating system.

Analysts and the media have stated that the decline in Nokia's performance results from transitioning to the smartphone strategy "too late."⁸ Recounts from insiders in the company show that there were several organizational problems hindering the company from moving forward.

Discussion of the Problem

Nokia has seen enormous amounts of success in the basic mobile phones industry during the 1990s and early 2000s. Durable, affordable mobile phones were manufactured and shipped for sale like large-scale commodities. Nokia's engineers were experts at value engineering, using affordable materials and designing hardware to achieve cost efficiency. In essence, Nokia's expertise lies in the design and manufacture of mobile phone hardware, which had seen great success before the arrival of smartphones. Over time, Nokia has remained focused on basic mobile phones as it has been the bread and butter of its business and was slow to adapt to the smartphone market.

Ideas never left the company's boardroom

The lack of successful cell phone products from Nokia caused the market to question the company's creativity. In fact, in 1999, more than 7 years before the launch of the first iPhone, Nokia had created a mobile phone with colored touch screen and a single button. In addition, Nokia's engineers had also developed a tablet computer with touch screen and wireless function—features seen in today's leading tablet devices. However, neither product was released to the market because of the company's hesitation to enter the smartphone market. CEO Stephen Elop stated that if the inventions had landed in products, "Nokia would have been in a different place." On average, Nokia spends 6-9 months assessing new opportunities in the market before designing products. In 2011 Nokia spent €5 billion on R&D, 30% of industry total.⁷

An Engineering-Dominant Organization

Nokia is a highly engineering-centric organization. "At Nokia, engineering has been allowed to displace what is properly the company's *design* prerogative almost entirely," said former head of design for user-interface and services Adam Greenfield.⁹ In fact, even though consumers are being drawn away from Nokia by Apple's user-friendlier operating system, Nokia's engineers continued to focus on making the best hardware. Greenfield also recalls that the dominance of engineers in the decision-making of what products get released meant that design and user-experience were not key priorities in product development at Nokia.

The scale of profits they can generate measures the viability of projects. In other words, projects are selected based on how much ROI on absolute terms it can create. Smaller initiatives are often set aside. One example is the Nokia Sports Tracker—a fitness activity-monitoring app that Greenfield thought would lend the brand "an aura of futurity, build consumer enthusiasm and loyalty." The project was not given enough funding and eventually dropped by the company. According to Greenfield, senior management often ignores homegrown projects and inventions that are small in scale.⁹

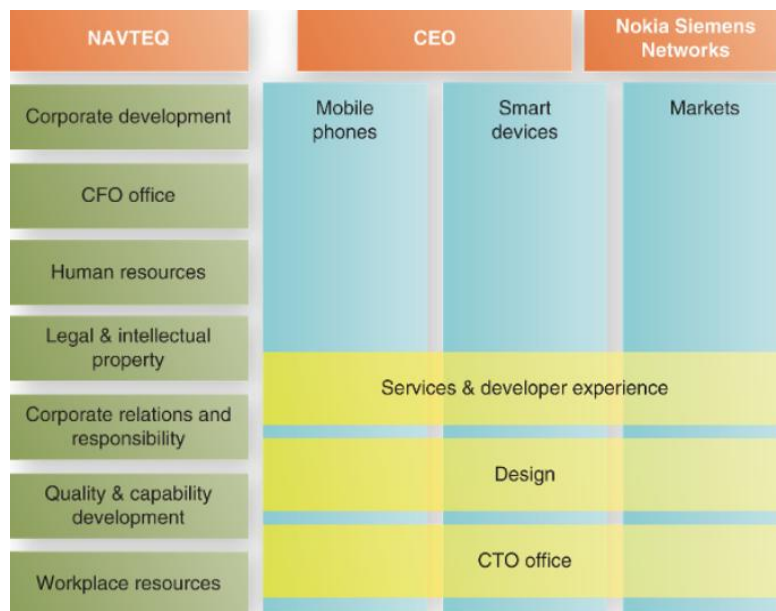
Competition Overload and Inability to Reach Consensus

By 2008, Nokia executives realized the need to develop a more appealing software operating system, but despite spending more than four times in internal research and development than its competitors, Nokia had trouble generating workable innovations from meetings. Internal competition was intense between two groups with different beliefs of what would be best for the company. One team advocated for continuation of the old operating system Symbian, while another team supported building a brand new system—MeeGo.

The teams competed with each other for top executives' attention. Nokia's chief designer Alastair Curtis said, "[the teams] were spending more time fighting politics than doing design." Decision-making and ideas generation at Nokia involved more than 100 engineers from all over the world packed in a hotel conference room, with representatives from Symbian and MeeGo fighting to make their voices heard and to keep their jobs.⁷

Nokia's Corporate Structure

Nokia is a large company with many departments and layers of management. Products are put into two core product segments: Mobile Phones (traditional, basic cell phones) and Smart Devices (smartphones and tablets). The Markets unit runs sales, marketing, and global supply chain functions. Cross-product functions such as Services and Developer Experience, Design and CTO Office (the firm's technology unit) are separated into their own departments. (see below for Nokia's structure).



Nokia's Organization Structure¹⁰

Although the matrix structure of Nokia's organization should drive knowledge sharing and more communication between departments and product units, chief designer Curtis still sees the organization structure as convoluted. He stated, "It was hard for the team to drive through a coherent, consistent, beautiful experience"

CEO Stephen Elop's Response

After his appointment as CEO in 2010, Stephen Elop vowed to craft a clear strategy for the company after years of indecisiveness. In an attempt to rally the troops, CEO Stephen Elop issued a controversial memo to Nokia employees through the company's internal network. In the memo Elop suggests that the company is standing on a "burning platform" and "must change its behavior." The memo was called "brutally honest" by the media. Here is an excerpt:

We poured gasoline on our own burning platform. I believe we have lacked accountability and leadership to align and direct the company through these disruptive times. We had a series of misses. We haven't been delivering innovation fast enough. We're not collaborating internally. Nokia, our platform is burning.¹¹

Furthermore, the memo went on to describe the ineffectiveness of all of Nokia's software platforms, both the Symbian and the MeeGo. He stated, "...Symbian is proving to be an increasingly difficult environment in which to develop and meet the continuously expanding consumer requirements..." Sales of Symbian devices declined 30% in the next three months following the release of the memo. Moreover, employees perceived the memo poorly, believed that Elop was working as a mole from Microsoft, and thought the goal of the memo was to stir up a need for change to facilitate an acquisition deal with Microsoft. An anonymous employee claimed that the memo did not work, describing that car parks were empty and there was an unwillingness to work.¹²

Discussion Questions

What are the most pertinent questions that should be asked in order to address the critical issues, main decisions and possible solutions to this case?