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SUCCESS THROUGH LEGACY AND GLOBALIZATION

In the late 1990s, Nokia's success seemed to come out of the blue in the worldwide markets. In reality, the company is a decade or two older than many leading multinationals, including General Electric (founded in 1876) and Coca-Cola (1886), and almost a century older than such technology giants as Intel (1968) and Microsoft (1975). Nokia's legacy has evolved through several eras and reincarnations from a forestry company to a diversified conglomerate to a European technology concern and, ultimately, to the globally focused mobile and Internet giant it is today.

It is Nokia's ability to embrace change and adapt to the future that accounts for its global success since the early 1990s. But Nokia's organization is shaped by its past, as well as by the external environment. Like other multinational companies, it has been influenced by the path by which it has evolved: its organizational history. This chapter takes a closer look at the company's fascinating history and evolution, particularly the key forces, legacy, and globalization that have enabled it to embrace change and contributed to its enormous growth and success.

Origins of Nokia

Since Nokia's history is so embedded in Finland, a small Nordic country, some historical context is vital to understanding the company's growth and transformations.

A Forestry Foundation

From the late nineteenth century to the twentieth century, forestry was the industrial backbone of Finland's economy. In this era, most Finnish firms competed primarily on the basis of price in forestry-based or forestry-related industries that required little technology. At the same time, the Finnish economy remained sensitive to world economic cycles and exchange rates. Nokia grew along with the national ambitions of the small country that had been ruled for centuries by neighboring Sweden and Russia. Following the Crimean War (1853–1856), Finland was joined to Russia and made an autonomous state, a grand duchy.

The creation of Nokia, as a small forestry enterprise, coincided with the tremendous boom in the Finnish lumber industry, which put the country on the road to industrialization. But Finland was still a part of Russia.

Fredrik Idestam, Nokia's founder, came of age in this era of optimism, entrepreneurialism, and new technological opportunities. Born in 1838 to a religious and educated family, the young engineer graduated from Helsinki University in 1863 and traveled to Germany, where Wilhelm Ludwig Lüders had created a new and innovative process to manufacture pulp. In Mägdesprung, Idestam visited the famous factory, only to be thrown out by Lüders for what the German deemed industrial espionage.

But Idestam had seen enough. In May 1865, he received authorization to build his mill in Nokia, a small town about ten miles to the west of Tampere, Finland's then-industrial center. Over time, the Nokia factory attracted a large workforce and the town grew around it. That became the name and the foundation for the future Nokia Corporation, which is now located in Espoo, a garden city just a fifteen-minute drive from the center of Helsinki and close to the famed university and technology center.¹

While studying in Helsinki, Fredrik Idestam had met Leo Mechelin, who later became Finland's first parliamentarian and played a crucial role in the struggle for independence. Nokia's two founding fathers—Idestam, the businessman, and Mechelin, the politician—were among the leading young Turks of a new Finnish generation. Their vision was an innovative

company and an independent economy, deeply intertwined with the world economy. Finnish forestry leaders leveraged their dominance at home into foreign markets. In contrast, Nokia built its foothold first in foreign markets, which allowed it later to build a position in the domestic market. As a result, it developed a more international mindset.

Diversification into Electrical Power and Other Industries

In 1917, when Russia was swept by the turmoil of the Bolshevik Revolution, the Finnish parliament approved the declaration of independence. After Lenin's Bolsheviks recognized the independence of their small neighbor, the Finns drifted into a bitter and devastating civil war between the nationalists and the socialists.² These tumultuous years crushed many Finnish companies. Due to its increasing diversification and internationalization, Nokia was not as vulnerable as most forestry firms. By the 1920s, its paper and pulp mill, the Finnish Cable Works, and the Finnish Rubber Works sought leadership in their respective industries. Meanwhile, Nokia's corporate name became the joint foundation of all three companies. Indeed, it was only in 1966 that Nokia Ab, Finnish Rubber Works, and Finnish Cable Works were formally merged to create Nokia Corporation (however, Nokia had already been listed in 1915).

As Nokia transitioned from a family business to a public company, much of the correspondence was conducted in German, the business language of the era. Products were exported first to Russia and then to Great Britain and France. In the 1930s, China also became an important trading partner.

During the Second World War, Finland fought against the Soviet Union and, eventually, Nazi Germany.³ Unlike the tiny Baltic states, Finland managed to retain its independence, but with a heavy price. After the devastation (86,000 dead; 57,000 permanently disabled; 24,000 war widows; 50,000 orphans; 400,000 refugees from the ceded Karelia in the East and 100,000 from Lapland in the North; 70,000 children evacuated; and the loss of eastern territories), nothing would remain the same, not even at Nokia.



The devastation reinforced the Finns' legendary perseverance, but Nokia's vision had to change. It had to adapt to a new and very different future.

The Rise of the Industrial Conglomerate

After the Peace Treaty of Paris in 1948, Finland assumed a policy of neutrality and nonalignment, dictated by its geopolitical location next to the mighty Soviet Union. Over time, the new *realpolitik* became known as the "Paasikivi-Kekkonen line," after the two prominent postwar presidents, Juho K. Paasikivi (who governed from 1946 to 1956) and Urho K. Kekkonen (from 1956 to 1981). For decades, every Finnish schoolchild would learn President Paasikivi's words: "Acknowledging the facts is the beginning of wisdom." The subtle maxim highlighted the constraints of the small country in the geopolitics between the West and the East.

The new era began in 1948, when the Finns signed the Treaty of Friendship, Cooperation and Mutual Assistance with the Soviet Union, while agreeing to pay the estimated \$300 million war reparations to the Soviet Union. Although Finland preserved its independence, it grew insulated internationally. Fortunately, Nokia thrived in spite (and because) of the country's overall insularity. As Moscow's court supplier, Nokia's cable business became the cash cow of the three-firm concern (i.e., cable, rubber, and paper and pulp). Technology transfer was a different story because technology partnerships were seen as political alliances and thus eyed with suspicion at the Kremlin.

Opening Finland to Western Markets

Starting in the late 1950s, Finland opened its economy to Western Europe, that is, the European Economic Community (EEC) and the European Free Trade Association (EFTA). Whereas the Marshall Plan contributed to Germany's postwar economic miracle and the Korean War set the stage for the rejuvenation of the Japanese economy,⁴ the Finns missed both the Marshall Plan and the Organization for European Economic Cooperation (later OECD), due to Soviet opposition. As the foundations for bilateral Finno-Soviet trade were laid down, a substantial proportion of



the Finnish economy adjusted to Moscow's command economy. Because of the delicate politico-economic balancing act with the Soviet Union, the first science and technology agreements with the United States were not signed until the late 1980s.

After the years of reparations and reconstruction, Finland's President Kekkonen called for an extraordinarily high national savings rate and rapid accumulation of capital to speed up industrialization. After 1960, Finnish commercial ties with the Soviet Union and the other members of the Council for Mutual Economic Assistance (Comecon) also deepened. Concurrently, Nokia's business with Moscow was thriving. Björn Westerlund had been in charge of its cable business since 1956; as Nokia's CEO, he grew skeptical of Nokia's ability to sustain growth based solely on these markets. When Soviet revenues amounted to 20 percent of Nokia's total cable business, Westerlund warned the senior management: "We must be cautious and not allow the proportion of Soviet business to grow too much . . . If one day they'll say *nyet* in Kremlin, we'll lose our business overnight."

When Westerlund left his job in 1977, half of Nokia's exports were to the Soviet Union and half to the West. His successor retained this balance, thus saving the company from a catastrophe when the Soviet Union collapsed. At the time, only 10 percent of Nokia's total revenues came across Finland's eastern border.

Diversification into Electronics

Primarily between 1945 and 1980, Nokia consolidated several critical state-controlled and privately owned units of Finnish electronics, radio phones, and TV. It was not a purposeful strategy, but a complicated series of piecemeal moves in an effort to invest in innovation and growth.

Televa Starting in 1945, the State Electric Works—which had been launched in 1925 as a research laboratory of the Finnish Defense Forces—served as an industry catalyst. In 1981, Televa Oy was taken over by Nokia. This purchase was the final step in Nokia's consolidation of the nascent electronic and mobile communications industries in Finland.

Mobira In the early 1960s, Salora Oy, a veteran radio and TV set producer, diversified into radio phone manufacturing. Nokia's marketing activities with Salora resulted in increasing cooperation, which led to a joint venture, Mobira Oy (as in *mobile radio*), in 1979.

Nokia's Electronics In 1960, the Finnish Cable Works diversified into electronics. Concurrently, Nokia began importing computer systems by Elliot in the United Kingdom and Siemens in Germany.⁵ The revenue base was tiny. To survive, Nokia had to internationalize.

Nokia's consolidation of these various different firms was really a "sum of a great many chances."⁶ At the same time, Nordic cooperation contributed to the expansion of nascent mobile communications.

In 1967, the corporation took its current form as the Nokia Corporation.⁷ The new industrial conglomerate operated in forestry, rubber, and cable, and it was entering electronics. As Finns saw it, the name of the new company, Oy Nokia Ab, came from wood processing, the management from the cable factory, and the money from the rubber industry. Yet in only a quarter of a century, all of these segments would be divested. It was the most insignificant business of all—electronics—that would position Nokia for the future. This meant a U-turn for a company that in the 1960s was still best known for its rubber boots, winter tires, and toilet paper.

At the same time, the parliamentary elections of 1966 marked a major turning point in Finnish politics. The socialist parties gained their first absolute majority in half a century. With a series of center-left governments until the late 1980s, more than 80 percent of Finland's total workforce was organized into unions.

Motivated by the fear of American multinationals and faith in socialist planning, a generation of "new radicals" began to promote the idea of a state-owned electronics giant, Valco. While Silicon Valley was emerging as the entrepreneurial hotbed in California, the Finns were moving in a diametrically opposite direction. Still, the plan, which required the socialization of Nokia, was in trouble from the beginning. It was driven by



political posturing, not market opportunities. As the notion of a high-tech national champion failed, Nokia took over the ruins of Valco as well.⁸

Expansion into a European Technology Concern

In 1977 Kari H. Kairamo took charge of Nokia. Soon change and flexibility became the new catchwords. Born into a wealthy family, Kairamo was energetic, charismatic, hardworking, persistent, independent, entrepreneurial, innovative, and rebellious. For all practical purposes he *was* Nokia through the 1980s. He renewed and internationalized Nokia's vision. In the early 1970s, exports and foreign activities accounted for only 20 percent of total sales; by 1980, their proportion increased to more than 50 percent of total sales, while revenues quadrupled.

“Kari Kairamo was an extraordinary visionary, energetic and energizing, but he could be challenging to the organization,” describes Sari Baldauf, one of Nokia's leading executives in the 1990s boom era. “At times, we had to cope with substantial uncertainty. Still, Kairamo's era meant bold risk-taking and a clear long-term perspective. Kari was very committed to the devices, joint ventures, and telecom technologies overall.”



Growth Through Bold Mergers and Acquisitions

By the mid-1980s, Nokia had been transformed from a diversified industrial conglomerate into an electronics concern. CEO Kairamo's prime objective was to transform Nokia into a European technology concern. “European industry, as well as the cost structure of products, has become increasingly knowledge-based,” he said. “To us, internationalization is not an alternative to something else. Finland has only two resources: the people and the trees.” In the past, Finland had been about natural resources and comparative advantage. In the future, it would have to be about human capital and competitive advantage. Export success, however, was predicated on Nokia's sustained ability to internationalize. “That is the greatest risk facing the Finns,” Kairamo stated; “the small amount of international business experience.”⁹



If the Finns did not yet know much about the world, the world certainly knew little about the Finns. “Wherever you went during those days,” recalls Baldauf, “you always had to spell the name of Nokia: N-O-K-I-A. *Nokia*. Not *Nokaia*, not Japanese. We were not internationally relevant yet, except for certain limited market areas.”

At the time, Nokia had few alternatives. Western countries were still dominated by national telecom monopolies. The only opportunities were in Asia and northern Africa. “There was no global strategy yet,” says Matti Alahuhta, who later became Nokia’s executive vice president and president of the infrastructure and mobile device businesses, respectively.

To compete with the European national champions, Kairamo began a frantic wave of merger and acquisition (M&A) activities, and despite doubts, Nokia also pushed into consumer electronics in the 1980s. After Salora, the largest Finnish TV producer, it acquired Luxor AB, Sweden’s faltering state-owned electronics and computer concern, which was followed by the purchase of Oceanic.¹⁰ In 1988, Nokia also created the largest IT group in Scandinavia, Nokia Data, by purchasing Ericsson Group’s Data Division.

By the late 1980s, Nokia was Europe’s third-largest player in TV manufacturing, its market value had tripled, and it was the largest company in Finland.

A Balancing Act Between Western and Eastern Markets

At the same time, the company faced a delicate balancing act vis-à-vis the Soviet Union. Nokia’s Soviet trade still amounted to 39 percent of the total in the early 1980s, but investments were moving into technology, and that meant the West. Kairamo could not easily distance Nokia from Moscow, nor could he approach Washington.

During the 1960s and 1970s, “Finlandization” became a cautionary catchword in the West. In the Soviet embassy, every major Finnish politician of significant standing had a “close friend” in the KGB with whom they kept in touch (a *kotiryssä*, or a “home Russian,” as the Finns put it). Nokia’s CEO was no exception; Viktor Vladimirov, a KGB general,



deemed Kairamo one of the most important Finnish industrialists with whom he kept in regular contact.¹¹

After the Soviet invasion of Afghanistan in 1980, the Reagan administration boycotted the Moscow Olympics and prohibited technology exports to the Soviet Union. At the time, Finland, spearheaded by Nokia, served as one of Moscow's key suppliers of Western technology. NATO suspected that the Finns were leaking technology to the East. The future of Finnish electronics depended on Silicon Valley and close contact with the U.S. technology sector, so Kairamo had to convince Washington and its allies that critical technology products were not being given to the Kremlin.¹²

That began Kairamo's quest for a third way, that is, European integration—and this was a decade or two before it became ideologically faddish and politically safe in Finland. In 1987, when the conservatives returned to the government after a quarter of a century, Kairamo led the talks of the nonsocialist parties. And in the spring of 1987, he triggered a national debate by insisting that Finland should join the European Council.

Kairamo was no longer part of the old Red capitalist guard, the corporate elite closely connected with Finland's President Kekkonen and the Soviet interests. Nor was he part of the boomer generation with its professional managers. "Kairamo was dynamic, charismatic, and more emotional as a leader," says one influential Nokia insider. "He was still close to the old Finnish patron generation of corporate chiefs." And, he adds with a gentle smile, "in the old days, the patrons decided and knew *everything*."

Mobile Communications: Entering the U.S. Market

Even while launching Europe's first digital telephone system, Nokia continued its aggressive acquisition activities. It also initiated supply relationships with L. M. Ericsson in Sweden, IBM in the United States, and Northern Telecom in Canada.

Soon thereafter Nokia engaged in strategic alliances, such as the joint venture with Tandy in Texas and South Korea, to learn more about



flexible manufacturing and to ensure access in the U.S. market. Nokia was small enough to exploit new technologies more flexibly and quickly than its mass-producer rivals. Due to rapid international expansion, Nokia's young employees enjoyed great autonomy, especially in the new international businesses.¹³

Lessons from the Japanese

Through the postwar years, U.S.-based multinationals dominated worldwide competition. As Nokia began to internationalize and move into the technology sector, Japanese companies were challenging U.S. leadership across several industries, primarily in the electronics sector. Many people thought Nokia was a Japanese company, due to the sound of the company name. The Finns did not mind; they felt it was better to be misunderstood than unknown.

In addition, the Nokians studied the business models of Japanese industry leaders from Sony and Matsushita in consumer electronics to Toyota and Honda in the car industry. Unlike the Finnish Nokia, which had to compete for success, the Japanese mobile equipment manufacturers were the preferred suppliers of NTT (or Nippon Telegraph & Telephone Corporation), the national telecom giant. The Nordic mobile markets had a history of relatively high competition and they had been largely deregulated, privatized, and liberalized in the 1980s. In Japan, such reforms took longer.

“In 1979 when [Nokia's mobile communications business] was established, we were told that ‘the Japanese will kill us.’ Or ‘Nokia doesn't have a chance in hell. By 1985, you will be chewed up and spat out,’” recalls Kari-Pekka (“KP”) Wilska, Nokia's former senior executive. “But it didn't go that way.”

Ambitious Growth Brings New Challenges

Years before Nokia's restructuring and refocusing, CEO Kairamo was already thinking about selling off some old, core divisions of the company to generate cash and capital to compete with major electronics giants. In Finland, skeptics thought Nokia was too big for a small country. Abroad,



it was deemed too small for the big leagues. Still, it was slowly carving itself a market niche by its willingness to listen to the customer.

The problem was that as a European technology concern, it was a latecomer. When Nokia entered the TV business, the Japanese were already dominating the industry. When Nokia entered the IT business, Silicon Valley was already leading the sector. In order to survive, Nokia would have to adapt to a different future, once again.

Under CEO Kairamo's leadership, Nokia changed from an insular maker of pulp, paper, chemicals, and rubber into an international technology leader, focusing on TV sets and mobile telephones. Not only was the company growing fast, but it was also increasingly diversified. After the intense M&A period, even sympathetic observers wondered whether Kairamo was hedging bets "too boldly and too broadly," as one Nokia insider puts it. "Eventually it all did lead into a catastrophe."

In the early 1980s, the Finns conjectured about where Nokia was going. A decade later, they wondered whether it would survive.

Finland's Economy Plummets

"In the next ten years, Nokia will change more than in the preceding 120 years," predicted Kairamo to journalists in the late 1980s.

Despite the intense M&A drive, many took it as hyperbole, recalls Lauri Kivinen, Nokia's longtime corporate communications chief, who now heads corporate relations in Nokia Siemens Networks (NSN). "What's shocking about the statement is that it proved so true. With technology progress, economic globalization, and political liberalization, Nokia was not a large ocean liner that moves slowly, but agile and responsive."

Bank Bubble Bursts, Soviet Trade Collapses

As measured by gross domestic product (GDP) per capita, Finland in the late 1980s was one of the richest countries in the world, and the Finns thought of themselves as the "Japan of the North." But the happy days were about to end. Practically no fiscal or monetary policy measures were taken to moderate the expansionary effects of the economic boom. At



the same time, Finland's trade with the Soviet Union amounted to 25 percent. As the bank bubble burst, Finland was swept by a recession unlike anything it had seen since the 1930s. At first, things got really bad. And when the Soviet Union collapsed in 1989–1991, so did Finnish-Soviet trade. It was then that things got a lot worse.

The Finnish economy went into a tailspin and plunged into a recession, which proved exceptionally severe in the history of the industrialized world. It was caused by a combination of economic overheating, depressed markets with key trading partners (particularly the Soviet and Swedish markets), and the disappearance of the Soviet barter system. Stock market and housing prices declined by a whopping 50 percent. In the booming 1980s, the growth was based on debt, and when the defaults began rolling in, GDP declined by 13 percent and unemployment increased from a virtual full employment to one-fifth of the workforce. In 1989, the Finns' standard of living had been 80 percent of the U.S. level; four years later, it was less than 70 percent. For all practical purposes, fifteen years of prosperity dissipated into thin air.

Initially trade unions opposed reforms, which served to amplify the crisis. Politicians struggled to cut spending, but the public debt doubled to 60 percent of GDP. In the 1980s, much of the economic growth was driven by debt financing; now debt defaults led to a savings and loan crisis. A costly bailout of the failing banks led to the consolidation of the banking sector. The ghastly depression bottomed out only after devaluations in 1993; and with new foreign ownership laws, many Finnish companies drifted into foreign hands.

After 1991, Finland got its first nonsocialist government since 1966. In 1991, the centrist-conservative government of Prime Minister Esko Aho (who became Nokia's chief of corporate relations in 2009) formulated an export-oriented economic strategy to revitalize Finland's exports and industrial production.¹⁴

Nokia Struggles for Corporate Control

At the same time, the struggle for Nokia's corporate control escalated. In order to prepare the company for international markets, Nokia's CEO Kairamo initiated organizational reform in the late 1980s to increase

flexibility and cooperation while delegating responsibility. He wanted to demolish the old hierarchies that prevented the company from “listening to the customers.” The legendary decentralization and teamwork found today at Nokia (discussed in detail in Chapter Three) resulted from these efforts. However, the external stakeholders—particularly banks and insurance firms—had their own ideas for what the future of Nokia held.

Nokia Loses Its Leaders

Concurrently, the hectic pace of the M&A activities began to affect Nokia’s seemingly invincible executives. In April 1988, Timo Koski, who was managing director of Nokia’s electronics and potentially Kairamo’s successor, suffered a cerebral hemorrhage on a plane in Heathrow, London.

Meanwhile, Kairamo was unable to achieve some of his goals. He had been introduced to the Roundtable of Industrialists, the elite CEOs of European big business, by Pehr G. Gyllenhammar, who was then CEO of the Swedish carmaker Volvo. Together Kairamo and Gyllenhammar proposed the most expensive Nordic business deal in history, but when Kairamo introduced the plan to Nokia’s board of directors, which at the time comprised growth-driven directors and more conservative banks and insurance firms; he lost the vote. “The banks don’t want it,” Kairamo said later about the proposed Volvo/Nokia deal.

Through its entire history, Nokia had been controlled by two rival banks: the Union Bank, which initially dominated the rubber business, and KOP (Kansallis-Osake-Pankki, which today is a part of Nordea Bank AB, a Nordic giant), which initially dominated the forestry business. Kairamo thought that the leading Finnish banks were conspiring to spin off pieces of the empire he had been building. The banks denied the allegations.

Only eight months later, on December 11, 1988, Kairamo was due to travel to Thailand for a vacation. But he had had enough: that afternoon, he hanged himself. In a letter, he indicated that his death was due to a manic-depressive condition and gave recommendations on how to deal with the issue without harming Nokia’s interests. The suicide, he said, had to do with him, not with Nokia. He signed his letter, “Sick.”¹⁵ Perhaps he



also felt that he had failed to bring Volvo into Nokia and was weary of the board's opposition and frustrated with the banks and insurance firms. An empire was coming down and there was little he could do.

From Great Visions to Severe Restructuring

So began Nokia's restructuring and financial rollercoaster. New players were encircling Nokia, among them Pentti Kouri, a controversial Finnish investor and a onetime advisor of the international investor George Soros. Despite the severe recession, Nokia recovered quickly as its new CEO, Simo Vuorilehto, began to streamline business in 1988–1992. Vuorilehto was a tough-minded engineer who rose through the ranks of Finland's big pulp and paper industry. He lacked experience in electronics and he did not share Kairamo's ambition to make Nokia a more international company. As long as Kairamo and Vuorilehto had played together, one drove the vision, the other executed. With the vision gone, Nokia's strategy became one of restructuring.

Can Nokia Be Saved?

Throughout the twentieth century, Finland had been defined by its relationship with the Soviet Union. In 1995, the Finns joined the European Union (EU) and later the European Monetary Union (EMU). "My objective was to contribute to new employment opportunities and thereby reduce the high level of unemployment after the recession," says Martti Ahtisaari, Finland's president (1994–2000), who won the Nobel Peace Prize in 2008 for his efforts to resolve international conflicts.

For two decades, Nokia had struggled to open the doors to Europe through Nordic cooperation and European integration. Its dramatic growth contributed to leading Finland out from the recession after 1992, when the forty-one-year-old Jorma Ollila was appointed CEO.

Discipline, Trust, and Hope

Through the prior years of chaos, Nokia had a circle of business leaders who trusted each other and tried to keep things going. As Ollila took charge of Nokia, he had two priorities: restructuring operations and



promoting a culture of trust at Nokia. The economic situation was very challenging, and the company needed order, discipline, and systematic reporting. In Finland, Nokia is the oldest company listed under the same name on the Helsinki Stock Exchange (since 1915). Nokia's shares are also listed in Frankfurt (since 1988) and the New York Stock Exchange (since 1994). The latter meant a substantial change, by increasing visibility in the marketplace and fostering operational efficiency in the organization. While maintaining a long-term strategy, Nokia had to focus more on shareholder value.

Regarding the second priority, it was mutual trust that had supported the organization when it got close to the edge. "Jorma took seriously Nokia's culture and value base," says Nokia's former senior executive Sari Baldauf. "These brought cohesion after the hard and traumatic years, which meant the death of many and which we did not really talk about."

In fact, Nokia had been one of the key clients of Jorma Ollila, a Citibank banker and former student leader. In a 1984 meeting with Kairamo, Ollila had argued that in order to match the new competitive environment, Nokia needed a thorough organizational transformation. "Nokia had some really good people, and it had a lot of drive, more intense drive than a well-managed international organization," recalls Ollila today. "It was under a lot of transformation in 1985 when I joined in and there was a clear intent to go international."

Kairamo had hired Ollila as a vice president of international operations; soon thereafter, he became CFO and a member of the group executive board. Ollila got his first taste of the mobile industry operations in February 1990 by heading the small but strategic cellular phone division in Salo, a small Finnish city an hour's drive away from Helsinki.

The Great Turnaround

In November 1991, Nokia's then-chairman Casimir Ehnrooth called Ollila. "Can Nokia be saved?" he asked. If Nokia focused on mobile phones and opted for the digital GSM (the Global System for Mobile communications, which had become the new European technology standard), yes, Nokia could be saved, said Ollila. After all, Nokia was



Winning Across Global Markets

one of the key developers of GSM, which could carry both voice and data traffic.¹⁶ Unlike the U.S.-based players, Nokia was able to seize a disruptive opportunity.

Ollila had only one condition for the proposed CEO job: he had to be free to pick the management.

There was a two-year quiet period when many observers thought that Nokia was on its way to the final resting place. “People were wondering why I wanted to destroy myself in this kind of a venture,” recalls Ollila. “There were no expectations. But I took the job because I thought that we had great people and that, with the right focus, we could turn this company around and create something.”

As the Finns were about to join the European Union, Nokia had in place a new CEO who was finally able to execute the kind of changes that Kairamo could only dream of.

Nokia’s New Global Focus

In January 1992, Ollila got the job. “Look, you get six months to make a proposal on whether we sell it or what we do with this business,” he was told.” After four months, Ollila said Nokia should *not* be sold. Rather, he advised that “you must build a new company around mobile communications, handsets, and infrastructure. Get rid of the rest.”

After a boardroom shake-up, Ollila, as CEO, and Olli-Pekka Kallasvuo, his CFO (who later became CEO when Ollila retired), began to envision Nokia’s new strategy. “We had unhappy Finnish shareholders, unhappy international shareholders,” says Ollila. “The only thing we could do is to start building the foundation for a meaningful stock performance.” In August 1992, he was working on a presentation. He quickly scribbled a title, “Nokia 2000,” and four headings that would become famous: “Focus, Global, Telecom-oriented, High value-added.” The rest is history.

Focus on Core Capabilities

In the 1980s, Finnish companies were still growing horizontally as conglomerates. In the 1990s, they began to grow vertically by focusing on their



core strategic capabilities. The collapse of Soviet trade served as a great catalyst for change in Finland. In addition, the severe recession accelerated the structural transformation of the economy. Finally, membership in the EU brought a new sense of optimism.¹⁷

Even in the 1980s only a few Finnish companies had an international orientation, and most were diversified conglomerates. “Those of us who did travel internationally had a hell of a job to explain why Finnish firms were so diversified,” says a veteran executive. But they operated in a small country with a small marketplace. “If you wanted to grow and stay in Finland,” he adds, “there was no alternative but to gain new legs.”

Nokia got into mobile communications through R&D in digital electronics in the 1960s and Nordic cooperation later in the decade. But its mobile communications properties were decades older. In the 1970s, Nokia was able to consolidate Finnish electronics. In the 1980s, the business thrived in the analog cellular era. But the real boom era followed with digital cellular in the 1990s.¹⁸ Deciding to focus on mobile communications globally, Nokia concentrated on its core businesses (Nokia Mobile Phones and Nokia Networks), leveraged both units worldwide, and divested the company’s many noncore properties. During those troubled times, this was a bold strategy intent. “A lot of people had to go, and a lot of businesses would have to be sold,” recalls Ollila. After the start of the strategy process in spring 1993, he proposed to the board that Nokia should sell everything except Nokia Mobile Phones and Nokia Telecommunications.

Nokia’s board did not oppose the new course, but it wanted a second opinion. So Nokia hired the management consulting firm McKinsey to explore whether the proposed focus was too narrow. McKinsey’s bottom line? “No, the focus isn’t too narrow, but you’ll have a lot on your plate.” The mandate was made official at the 1995 board meeting in Hong Kong.

“It’s not so difficult or dramatic to sell businesses. Western banks love to get such a mandate,” says Ollila. “It’s far more difficult to create something, to grow a global business—and that’s what we wanted to do.” By spring 1995, Nokia’s executive team was fairly confident that



it was on the right track. They believed that they could grow the core businesses—handsets and infrastructure—into something really good and strong, as long as they put all their energy into the effort.

However, focus strategies have different implications in big and small countries. In large advanced economies, the industrial portfolio is usually so large and diversified that a single company's focus strategy does not have a great impact on the broad economy. In small countries, however, the industrial portfolio is so small and narrow that a single giant's focus may have a tremendous impact on the broad economy. Nokia and Finland are a classic example of this. The great new opportunities came with great potential rewards and new risks.¹⁹

Repositioning of Nokia in Terms of Global Growth

In the early 1990s, Ollila and his executive team did not just refocus the company in terms of its mobile businesses; they also repositioned it in terms of global growth. The bold strategy had been explored earlier by several members of his executive team, including Matti Alahuhta, later Nokia's executive vice president who had written a dissertation on global growth strategies.²⁰ Led by the Nordic markets, the Europeans opted for the GSM digital mobile standard, which was pioneered by Nokia and Ericsson. In the European Commission, the triumph of the GSM standard, the Nordic cellular industry, and the global rise of Nokia and Ericsson showcased European competitiveness at its best: by summer 1998, Nokia was number one in handsets and number two in infrastructure.

At Nokia, success was attributed to the right strategy, organization, and culture. When asked about personal motivations and incentives, many Nokia executives refer to perseverance. "It was great to see the company come back from the crisis of 1992," recalls Jorma Ollila. "We felt we had the right concept until we hit the brick wall in 1995–1996 with the logistics crisis." It is this crisis that veteran Nokians describe as their defining moment and that inspired the *Financial Times* to declare Nokia to be history.²¹ "We were written off," smiles Ollila: "Only two years later, our stock went through the ceiling. So what's most rewarding in this business? To come back from such an obituary, that's the best!"



Embrace of Globalization

“In the Ollila era, Nokia focused on telecom,” says Arja Suominen, a Nokia veteran and currently chief of communications. “Now we live in an age of convergence. But one of our principles has been the faith in continuous change and that has not changed. We are addicted to change. It is energizing.”

As a small-country multinational whose success is predicated on globalization, Nokia’s legacy has been shaped by global economic integration, which occurs through trade, migration, and foreign investment capital.²² Through its history, Nokia has embraced the waves of globalization.

Waves of Globalization

Starting around 1870, only a few years after Nokia’s founding, the first wave of globalization was driven by the falling costs of transportation and communications. It was reversed in the early 1910s by a retreat into nationalism and protectionism. Between two world wars, transport costs continued to fall, but trade barriers rose as countries followed beggar-thy-neighbor policies.

During these decades, companies from European countries, especially those with extensive overseas empires, dominated the expansion of investment abroad. Many developed a *multinational* strategic mindset to emphasize differences among national markets and operating environments. It was during this period, too, that Nokia initially established a foothold in the worldwide markets through exports: first as a forestry enterprise, later as a diversified concern. But it was still a peripheral player and the multinational mindset never really took root in the company.

After 1945 governments cooperated to rein in protectionism, which led to the reduction of trade barriers and transport costs. In this second wave of globalization, U.S.-based companies, taking advantage of their new technologies and capabilities, were best positioned to exploit the postwar boom. They had an *international* strategic mindset. They developed products for the domestic market and only subsequently sold abroad.



Winning Across Global Markets

In the Cold War era, leading Finnish companies, including Nokia, became intermediaries between the capitalist West and the socialist East. But at this time, the company was still imitating rather than innovating, and its electronics unit was still small and marginal in total revenues.

In the 1970s, globalization began to boost the fortunes of the Japanese multinationals. In an operating environment of improving transportation and communication facilities and falling trade barriers, these companies thought in terms of creating products for a world market and manufacturing them on a global scale in a few highly efficient plants. The Japanese multinationals had a global strategic mindset. It was their success that fueled Nokia's growing ambitions. Under the leadership of Kari H. Kairamo, the Finnish company engaged in a rapid series of bold M&As that transformed the company into a European technology conglomerate with daring aspirations to become a world-class manufacturer.

Since the 1980s, global economic integration has drastically accelerated as many developing countries have broken into world markets for manufactured goods and services. During this third wave of globalization, world trade has grown massively and markets for merchandise have become much more integrated than ever before.

Despite its long history and Finland's advanced level of economic development, Nokia has much in common with the "new globalizers" from peripheral countries. Like these late movers, it struggled for years to compete against established global giants from the United States, Europe, and Japan. And it has been transformed by strong leaders who led the company out of isolationism and parochialism.

The Balance Sheet of the Ollila Era

During Ollila's era, the company was transformed from an ambitious Finnish technology conglomerate into a globally focused mobile communications leader. When Ollila took the job of CEO in 1992, Nokia had some 27,000 employees, its net sales amounted to less than \$3.5 billion, and it suffered from a net loss of \$140 million. When Ollila retired in 2006, Nokia had more than 68,000 employees and its net sales amounted to \$54.3 billion, with a net profit of \$5.7 billion.



Success Through Legacy and Globalization

As Ollila himself sees it:

In 1992 Nokia was a conglomerate. It was growth-driven and innovative in terms of finding new growth opportunities, but it had no real focus, a low level of R&D, and no heavy bets on new technologies. Geographically, it was focused on Nordic countries and the Soviet Union, in addition to the home base. It had a very strong, healthy engineering culture. A decade and a half later, Nokia did not operate in many businesses anymore. It was highly focused on mobile communications. It was innovative and growth-driven, with very heavy R&D spending in carefully selected areas. It was global and had a truly global perspective, which was reflected by both ambition and by reality. It had a very strong and innovative engineering culture, coupled with unique capabilities in overall manufacturing and supply chain, as well as exceptional brand strength.

Nokia's senior executives are deeply aware of the fact that they have greatly benefited from globalization. If, however, globalization made Nokia, it could also break Nokia. During the 2008–2009 global economic crisis, the third wave of globalization collapsed. Unsurprisingly, CEO Kallasvuo occasionally spoke about his unease with signs of potential protectionism. As a global company, Nokia has sales in most countries of the world and consequently its sales and profitability are dependent on general economic conditions globally and locally.

Nokia has been successful because of its ability and willingness to take advantage of its unique legacy while embracing globalization. And it has succeeded with this approach not only as a result of its external orientation—for example, its embrace of environmental change—but also because of its internal collaboration, as we shall see in Chapter Two.

Nokia's Lessons

- Not all companies have a legacy that has evolved through several eras and incarnations. However, as Nokia's success indicates, it

Winning Across Global Markets

is vital to embrace change and adapt to the future, even when it requires a thorough transformation.

- Since its founding in 1865, Nokia's market focus has been abroad, but its global triumph originates from strategic decisions in the early 1990s. Today, the world is its home. Success requires building on legacy but taking advantage of globalization—not just in the proximate markets but all potential markets worldwide.
- While Nokia has embraced global integration since the nineteenth century, it opted for a truly global strategy amid the peak years of the third wave of globalization. As Nokia's success indicates, timing matters. Strategy must rhyme with the requirements of the changing competitive environment.
- When CEO Jorma Ollila and CFO Olli-Pekka Kallasvuo opted for Nokia's global focus strategy in 1992, they bet the future on new emerging industries and markets and began to divest all noncore properties. Most bold strategic decisions encompass both constructive creation and creative destruction. The lesson? Acknowledge the facts and never shun bold strategic decisions. The bolder the decision is, the greater are the potential rewards. Risk comes with the territory.
- The ability to embrace change, take advantage of globalization, and make bold strategic decisions does not automatically imply willingness to execute all three. As Nokia's success indicates, seizing global opportunities requires an ambitious vision and bold leaders to guide a company out of isolationism and parochialism.