

<https://jalphey.wordpress.com/2019/02/15/nokias-fall/>

## Nokia's fall in 4 key points

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- By 1998, Nokia was the best selling mobile phone brand in the world
- In 2007 half of all smartphones sold in the world were Nokias
- By the end of 2010 that business had collapsed
- In 2013 the company was acquired by Microsoft

At the time I was working in the mobile industry in a semiconductor design company. The collapse of such a major player was visibly shocking.

How could a company that to many was **the** mobile company fail so fast? And what can we learn from Nokia's fall?

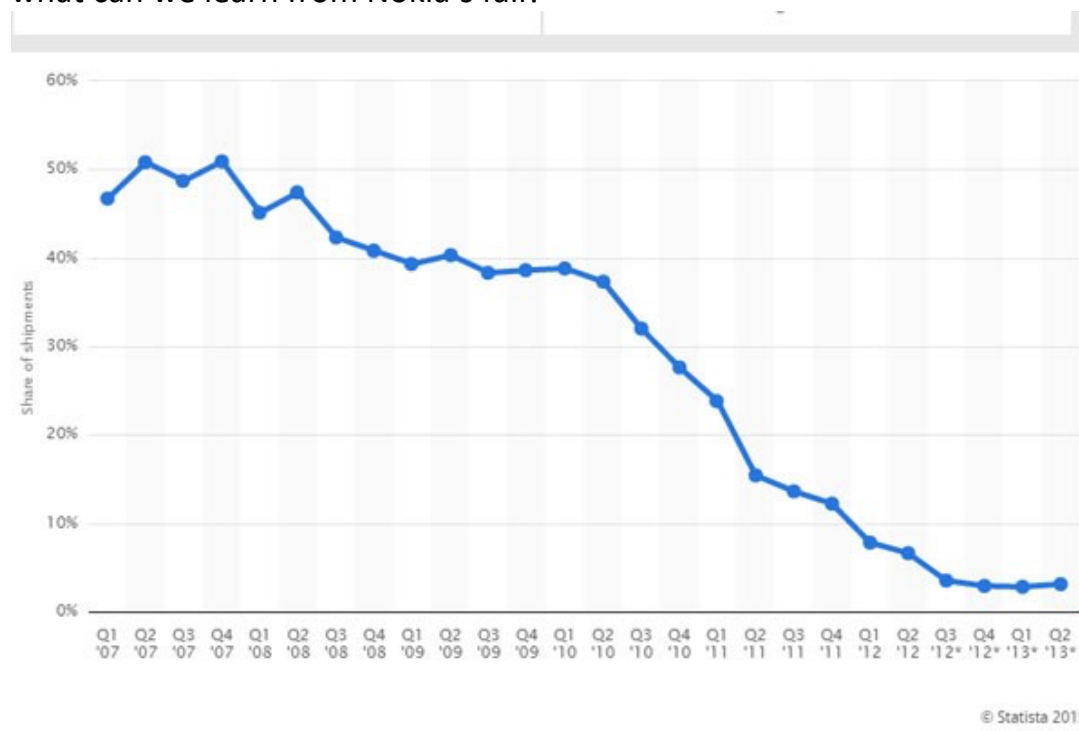


Fig 1 : Nokia Market Share drop 2007 to 2013

Tim Vuori of Aalto University and Qui Huy of INSEAD Singapore published a paper in 2015 looking at why Nokia failed ([Link](#))

It's easy to hypothesise why Nokia failed, and much has been written on the subject, but it's great to read this research. It's available at the link above, but at

43 pages (mostly text and only 2 diagrams), it takes a little work to read. In this article I discuss the findings and how they relate to agile team culture.

Vuori and Huy focussed on two key parts of the business – Top Management (which they abbreviate TM) and Middle Management (MM). They interviewed a wide range of people who had these roles at Nokia, looking at how they did their jobs and in particular the TM/MM interactions.

## 1. Disruptive innovation

Like most technology battles, it is tempting to say that Nokia's failure (and Apple's eventual iPhone success) was due to technical superiority of the iPhone. There is a strong cultural belief in the idea of an innovator appearing with a product so unexpected and brilliant that the established market leader is overthrown.

This idea is boosted by Apple who have a strong incentive in presenting the iPhone as a transformational product. This promotes the “disruptive technology” model proposed by Clayton Christensen.

*A disruptive innovation is a technologically simple innovation ... in a tier of the market that is unattractive to the established leaders* Clayton M. Christensen

There's a problem with this interpretation. As the interviews in this paper show, Nokia knew what was coming. They understood what the iPhone was and what it offered. They understood technically what it was.

*We knew [the iPhone] was coming out about a year in advance. We had pretty good specifications for it* How Nokia Lost the Smartphone Battle

Most critically, they weren't ignoring the iPhone. They knew it was a threat, they knew why and they mobilised to deal with it.

*Our market analysis showed that our biggest competitive weakness was the lack of touch-screen products* How Nokia Lost the Smartphone Battle

And yet, despite this, and despite their market leading position, they failed to address the problem successfully. So why might this have happened?

## 2. Technical Debt

The one place where the report does identify a real technical issue is in Nokia's approach to Technical Debt. The company's ability to respond to the technical challenge of the iPhone had been eroded by the quality of the codebase. A lack of maintenance of the code had led to poor structure which slowed development and prevented rapid response to a threat,

*instead of saying early on that we have to get rid of this [old system], it's not worth fixing it, they had just been patching it up. It might help in getting the next product out, but it doesn't solve the [core] problem* How Nokia Lost the Smartphone Battle

But Nokia was a technology company. In a dominant market position, why was it allowing technical debt to build? And given an understood external threat why was it still failing to address that threat? A build up of technical debt is often a symptom of a failure elsewhere. And it becomes clear the underlying problems in Nokia were cultural, not technical.

## 3. Failure of Communication

A fundamental part of agile philosophy is that a strong link from customers through to developers is critical. Close collaboration end to end from customer, through the business and to the teams is a powerful way of ensuring the team deliver the most value.

*Business people and developers must work together daily throughout the project.* Principles behind the Agile Manifesto

Nokia had a very different viewpoint. Customer interaction was handled by Top Management. They handed off to Middle Management for implementation and to direct the teams. These handovers have a very sequential "waterfall" feel. They drive a separation between the "strategists" and the "implementors"

*Nokia's TMs believed that MMs' narrow internal focus would ensure effective implementation, and therefore they discouraged MMs' external focus. How Nokia Lost the Smartphone Battle*

This handover was very strongly enforced by Top Management.

*"Don't challenge me, but focus on implementation" How Nokia Lost the Smartphone Battle*

The problem about this approach is that it minimises the amount of data which can flow through the company. This might be manageable if key skills were present at all levels of the organisation. But in Nokia the Top Management lacked a strong technical background. When they were shown demos or prototypes they were not able to directly assess what progress was truly being made and had to rely on what was reported.

*"A sufficiently competent guy can just look at the phone and see what's still to be done. But if you don't have a technical background, you just can't understand" How Nokia Lost the Smartphone Battle*

We can contrast this with what was happening at Apple at the same time. Steve Jobs was similarly controlling as a leader. But as a hands-on designer, typically spending some time every day with the product, he was able to make demands on product developers with a clear grasp of technological realities.

The result was a disconnect between Top Management, who understood the competitor position, and the developers, who understood the internal status. No one person had all the information to make a decision.

*A certain small group knew, but it wasn't known throughout the company how good the competitors' products are becoming. The group of people who really knew the pain was way too small. How Nokia Lost the Smartphone Battle*

## 4. Climate of Fear

A dominant factor throughout this paper was the growth of a climate of fear. Top Management had a history of aggressive behaviour – shouting, banging tables, threats of removal. Most of the Middle Managers had experienced this directly or by repute. And this experience became ingrained in the corporate culture. The result was that the behaviour of Middle Management was driven largely by fear of Top Management.

*The aggressive behaviors of the chairman and some EVPs activated a generic fear toward authority figures at Nokia, in particular all powerful TMs. How Nokia Lost the Smartphone Battle*

A culture of fear within Middle Management is extremely damaging to the organisation. I have examined this in a previous article. Fear leads to decision making based on avoiding (or hiding) failure, not on generating success. The Top Managers, driven by their visibility of external challenges, placed unrealistic demands on the Middle Managers. The Middle Managers, frightened of the consequences, failed to push back with realistic data.

*“I remember one meeting where they had an insanely optimistic deadline . . . I thought I should point it out, but the thought of challenging [TMs] made my heart race, and then I just kept quiet” How Nokia Lost the Smartphone Battle*

This led to a vicious circle. As the gap in understanding between Top and Middle Management widened, so the behaviours from both became more extreme. Top Management became more frustrated with lack of delivery to their expectations. Middle Management reporting became less reliable and more focussed on what the Top Management wanted to hear.

*Top management was directly lied to. I remember examples when you had a chart, and the supervisor told [you] to move the data points to the right [to give a better impression]. How Nokia Lost the Smartphone Battle*

## Agile Learnings

What I found most concerning when reading the paper is that I recognised the pattern of behaviours. I suspect many of us have seen these patterns.

I have worked with highly directive Top Managers who became isolated from the teams. I remember one of them saying “I want a team who will implement what I say, not make suggestions – I already know the answers”.

I have worked with very defensive Middle Managers who are focussed on survival and avoid any learning for fear of discussing failure. I’ve seen how damaging this is to effectiveness and morale.

Agile culture and leadership is designed to avoid the traps that Nokia fell in to. We need end-to-end communication. Developers and the business must interact and discuss customer needs. Communication must be open. We must listen when developers need to work on technical debt. Above all, we must remember Deming’s eighth rule – “Drive out fear”.

I know how hard it is to make this happen. My career has centered around planning and delivery and planning causes conflict. I’ve spent many years coaching people to stand up and be honest. And I’ve had some tough times pursuing honesty and openness.

When I read the quote below from a Nokia employee, I remember why I’ve done it, because I wouldn’t want this to be my epitaph.

*I should have been much, much more courageous.*

*I should have made a lot more noise, criticized people more directly.*

*I should have been braver about rattling people’s cages*

*I could have made more of an impact.* *How Nokia Lost the Smartphone*

*Battle*