



Nokia and its change programme

Strategic change and Organisations

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Table of Contents

<i>I. Introduction.....</i>	<i>2</i>
<i>II. Literature review.....</i>	<i>3</i>
1. Strategic change.....	3
1.1. Strategic drift	4
1.2. Different types of change	5
2. Porter's 5 forces.....	6
2.1. Potential of new entrants into the industry	7
2.2. Power of Suppliers	8
2.3. Power of Customer.....	9
2.4. Threat of substitute products	9
<i>III. Analysis:.....</i>	<i>10</i>
1. Revolution of Nokia.....	10
1.1 Before 2000s:.....	10
1.2 From 2000 – present.....	12
2 The relevance of Porter's Five Forces in Nokia	15
<i>IV. Conclusion.....</i>	<i>18</i>
<i>V. Reference.....</i>	<i>19</i>

I. Introduction

As the world is developing every day and the technology is changing constantly, essentially all organisations wish to stay stable and develop in the long term by having appropriate strategic change in order to respond to external changes. In general, changes in strategy need to be taken when it is appropriate. This paper will attempt to evaluate the need of adopting strategic change under the example of Nokia, a Finnish telecommunications company. Nokia is a good example to understand and illustrate how a business transforming its model from great changes in its business life by divesting radically its classic business lines (producing rubber, paper and cable related to telecommunications) to focus on mobile phone. As a result, Nokia has become one of the most successful mobile phone production in the history yet to marked itself also one of the biggest failure that no one can ever imagined.

The structure of this paper as follow: section I is Introduction, section II is Literature Review, section III is analysis, section IV is conclusion and lastly, reference will be located in the end of this paper.

II. Literature review

1. Strategic change

Transformational and strategic change is described as 'illustration of significance in alteration in, technically, the strategy, culture, and structure of the firm, identifying the potential effects, or conglomerate outcome of such changes' (Balogun et al., 2016). It specifically comprises of a redefinition of purpose and mission, and a substantial conversion in objectives, to re-introduce a new guidance to counter various environmental risks. Thus it is led by significant and momentous changes in light of organisation structures, resource allocations and processes (Balogun et al., 2016). Most interpretation of strategic change involves as being of adequate extensive reason to expect a new system in the making assumptions and maintain its beliefs that the individual of an organisation acknowledge about its own organisation, the character of the competition and how an organization is about to compete with its competitors and environment matters. It demonstrates an essential shift in term of designated business operation of the organisation, covering all structural and cultural aspects of the organisation. In contrast with divergent change, convergent change goal is to do with fine-tuning of the current operating method inside organisations (Balogun et al., 2016).

Studies examine strategy change has generally focused consideration on the gap that generally originates between the principle and execution of strategy. Frequently, it is questioning the capability of management assumption where strategy interventions (for example corporate/business planning) could achieve the

company's desired strategy and as a result it will lead to an improvement in the strategy of organisations are seeking for. It is believed that strategic change expects changes not only in organisational systems and structures but also the extent of interactions and behaviours within the organisation (Balogun et al., 2016). Various organisations are in hustle to change responsively as their performance drops. It might be resulted from an interaction to unexpected environmental changes in their competitive industry, as such they are forced to carry out strategic change to improve their position and to remove their lack of competitiveness.

1.1. Strategic drift

This term explains a context in which some senior managers still continue to explore the sources and capabilities of performance, also demonstrate the pros that have successfully delivered an improvement for their organisation during period since they engaged in some level of change. In fact, those changes are highly likely due to an incremental in nature, investing time and resources in commencement phase that identify the level of responsiveness to competitive challenges within the industrial market, yet are still in line with current strategic priorities. Correspondingly, those changes are not sufficient for the organisation to stay consistently with changes in its competitive environment. In this situation, 'strategic drift' is established, to narrow the gap between what the organisation is currently doing and what it the strategic change by its nature 9 needs to be done to gain the competitive advantage with their competitors. Once the gap widens, the

organization's performance begins consistently decline with punctuated equilibrium models of change.

1.2. Different types of change

It is believed to have four main types of change resulting in 4 academic waves - adaptation, reconstruction, evolution and revolution (Balogun et al., 2016). In general, change focuses on the choices among those above-mentioned types of change, however, it also tackles with the way in which the different change types can be utilized all together to deliver a more flexibles approach to change. This action is said to increase capabilities of a company in in term of planning, monitoring and executing the designated changes within the organization.

Evolution, typically, is transformational change that participate in business process gradually through different phases and interrelated initiatives (Balogun et al., 2016). It is highly likely to be pro-active transformation and is planned effectively in advance, where change is initiated by management level in response to their anticipation of the requirement for future expectation.

Similarly, Revolution is basically, transformational change, for example at John Lewis Partnership, it comes in form of simultaneous initiatives via number of fronts, and usually occurs in a relatively quick shot of time, in this case, it happened within 18 months (Balogun et al., 2016). It is strongly resulted in reactive transformation, due to the declining in competitive advantages the organisation is experiencing. Thus, in case an organization's strategic plan is still originated in the ways of

existing organisational behaviour that they are applying being pursued leading to their success, then the gap between the strategy being applied and the potential innovative strategies might require greater spirit to force fundamental change within a short timeframe so as the organisation is able to survive. In addition, planned transformation sometimes required to execute rapidly, because, for instance, the organisation identifies the need to respond rapidly to competitor threats, or must bear in mind that rapid change is necessary in most of cases where an organization changes customer desires. This is proved true by Foxconn, the electronic manufacturer who take part in production of giant brands such as Apple. Specifically, Foxconn has lately published plans for a relatively rapid transformation. It is in position where requires to move from being an assembly manufacturer to a high-tech service corporation. As a result, rather than only manufacturing products on a request from client, it intends to invent and have its own technology research and development and at the same time provide data services for mobile telecom providers throughout China. The timeline has decided for itself in this transformation recommend it is engaging in a revolution (Balogun et al., 2016).

2. Porter's 5 forces

In this paper, the author will apply Porter's Five Forces to analyse and evaluate the strategic change of the Finnish technology company – Nokia. The Porter's Five Forces is defined as a framework of analysing and recognising competing forces

that form every business that ranges from non-profit to profit companies and legal institutions as well as help firm to identify an appropriate strategy for its business (Cheppelow, 2019). According to Raible (2013), the Porter's Five Forces model is the core access into industrial organisation theory. Likewise, under the industrial organisation theory, structure of a market affected directly to the "allure" of an industry (Raible, 2013). When applying this model designed by Porter, it is essential to have fully capabilities in both knowledge and financial components to successfully operate a business, especially when drawing an ideal or strategy for the organisation. Indeed, a business's activities and status quo are affected by numerous determinants come from not only macro aspect, but also from the internal environment. However, a business would not be influenced by every single factors, thus, being conscious is key to detect which factor is crucial for an institution. This is the first force included in the Porter's Five Forces – competition in the industry, which combining with other four forces: potential of new entrants into the industry, power of suppliers, power of customers and lastly, threat of substitute products (Porter, 1979).

2.1. Potential of new entrants into the industry

From the perspective of a business, five forces included in Porter's framework normally creates anxiety on the success of an organisation. On the force of potential of new entrants into the industry, Porter stated that there are various kinds of competition such as "new product introductions", marketing method,

advancement in services and “price discounting” (Porter, 2008). Moreover, the efficiency and profit of a business are highly influenced by the amount of competitors exist in the domain of industry, which relies upon the magnitude of competition and the physical foundation of which companies compete (Porter, 2008). In numerous researches, scholars declared that the threat of new entrants is greatly impacted by the level of attraction existing in an industry, costs posed by the competition, the amount of rivals as well as barriers when exiting the current industry (Hubbard and Beamish, 2011; John et al., 2008). Additionally, when there are new entrants in an existing market, the competitive dominance will be affected. Supplementary supply for a same or fixed volume of demand would decline the profitability of players in a market. Sharing a same school of thoughts, Rothaermel (2008) stated that the profit of a business is undoubtedly influenced by the “height of barriers to entry”. Therefore, the level of threat of new participants is acting proportionately with the level of barriers to entry.

2.2. Power of Suppliers

In business, intimidations presented by suppliers commonly involves with pricing model of goods and services that they are providing. This would eliminate the ability of increasing price or the ability in overcoming a higher cost in the current price (Porter, 1979). Further, the degree of bargaining power of suppliers is influenced by several components such as there is only a small number of firms monopolise the current industry, which leads to higher attention than the market it

is selling to, the business is not a potential customer for the supplier (Porter, 1979). Likewise, the power of suppliers can be determined by the amount and size of suppliers in the industry as well as the number of alternative clients that is available (Slater and Olson, 2002).

2.3. Power of Customer

Based on Porter's theory, the contrary of bargaining power of supplier is considered as the power of customer. In a market, if customers own high market power, they would be able to determine prices of goods and services like gaining cheaper prices and better quality, which clearly influence profitability of a business. In the work of Slater and Olson (2002), the scholars found that the larger the size of customers, the higher the power of customers. The reason is buyers will easily shift to alternative provider for an identical product or substitutions, especially when there are limited sources available in market. In a macro view, every player in a specific industry is competing with other industries that generate substitutes (Dalken, 2014). Additionally, substitutions are barrier for a business's profit as it immediately restricts the level of price on goods and services selling in an industry.

2.4. Threat of substitute products

It is widely known that substitutes are services or goods utilised for an identical purpose and present similar satisfaction as well as function for buyers. It is an important element in marketplace and recognised as an advantage for buyers,

however, on the perspective of business, it presents the opposite effect. For instance, the cost of switching among substitutes or the preference of customer in purchasing substitutes are considered as factors create the threat of substitute products (Hubbard and Beamish, 2011).

III. Analysis:

1. Revolution of Nokia

1.1 Before 2000s:

In Finland, Nokia built its foundation nearly two centuries and the corporate has been through various milestones. Nevertheless, this paper would like to focus on the period 1990 until present for further analysis. In the 90s, Nokia enlarged its business segments from producing rubber, paper and cable to telecommunications and electronics segments. This move had marked an amusing point for this research as this change was the start of Nokia's success and failure. It was noticed that Nokia had made numerous acquisitions within European computers and televisions companies in the late 80s, however, most of its M&A activities failed. Therefore, this cross-border M&A activity was removed and Nokia shifted to a different strategy that focuses on natural development. In 1996, the Finnish corporate decided to narrow its business lines into mobile phone and mobile telecommunication networks (Haikio, 2001a).

That year, Nokia released its revolutionary product, N9000 that was considered as its first smartphone, is a consolidation of “HP-made PDA” and Nokia original software (Song, no time). Following N900, Nokia launched the first colour screen named N9210 with an open operating system. After, it transformed mobile phone industry by creating the first camera phone with the Internet browser, sharing information such as number, text messages, images via infrared system as well as music and video games features. If you were a fan of Nokia, N-gage is not an unfamiliar name. Nokia presented N-gage in the 2000s as a tool to defeat not only rivals from same domain but also other competitors in the video game industry. This “seduced” gamers away from Nintendo’s product, in particular is Gameboy and PSP because of the convenience it brought for users. Accordingly, 1996 is the year that mark a big change for Nokia when it was becoming the world leader and international phenomenon in mobile phone domain. As it is stated in Doz and Kosonen (2008) research, the amount of market shares, big volume of sales and profits have created Nokia to be the most influential mobile phone company in the world.

As mentioned earlier, Nokia changed its strategic and business structure from producing rubber to focus on technology. Nokia business strategy was used to fund other business lines with more profitable businesses to boost the growth and reduce unprofitability in “weak” business line; nonetheless, when Nokia switched its focus on telecom and mobile phone, funding these with the firm’s operating cashflow. In earlier business model, Nokia kept “a portfolio of businesses” that

correlated had been eliminated, in that current context, only remaining businesses endure “close and tangible links” (Aspara et al., 2013). Undoubtedly, these lines of telecom and mobile phones was originated from the Finnish corporate’s technological proficiency in the mobile landline that developed from the fixed-line telecommunication scheme. Additionally, these business segments produced products that treated as complementary and could support each other by rapidly being sold to an identical group of customers. Apparently, both mobile phone and telecom sectors strengthen their relationship by sharing the same strategic vision. Furthermore, on the side of human resource management, it is worth noticing that Nokia invested in building professional human resource since taking M&A activity and constructing top managers, CEOs image as well as operated personal training throughout the crisis in the 90s. With this strategy, Nokia is enabled to maintain relationship with partners and raised an image of the most attractive employers which helped Nokia recruiting talented employees for better development.

1.2 From 2000 – present

“The mobile Internet should remain ‘under the control of the mobile industry, and not the computer makers.”- said Jorma Ollila, chairman of Nokia (Hacklin et al., 2013). However, since the term Internet or web browsing correlates with mobile phone, the declaration made by Ollila crumbled. The brick-and-mortar and well-known firms like Siemens or Ericsson has vanished from the mobile industry.

Recently, the name like Apple and Samsung are dominating the smartphone industry and creating a new vision.

In the last three decades, the mobile phone industry has grown and its period has been segregated into different stages. In the early year of 21st Century, the generation of 3G was established that increases the speed of Internet. Afterwards, the famous American technology firm – Apple – presented its first smartphone named iPhone in 2007 with distinctive features such as touch screen, using its own software: iOS system and a special operating system that utilised on its laptops and computers. At that time, it supports mobile Internet but not the 3G version. The introduction of iPhone has changed perspective of users, technology industry, especially mobile industry and customer's preference. Moreover, this move was recognised as a chance to develop for not only Apple, but also other strong rivals in software industry like Google; however, following the Porter's Five Forces, this was a threat of new entrants for others old and strong firms as they had to scramble to establish new software and products responding to this market change. The Korean corporate, Samsung, was the only player flourished the fluctuation happened after the mobile revolution by acquiring Google's Linux-based Android operation system. Nevertheless, in this context, Nokia refused to change as they believed in their position in the market would retain. Sharing the same school of thought, Cord (2014) mentioned that managers of Nokia declared the Finnish corporate should subsist self-directed in software term that was set up by past accomplishments. Before the establishment of iPhone, Nokia presented a

smartphone operating system named Symbian that was criticised as complicated to use by both inside and extrinsic users. During that time, Nokia's share occupied mostly in the mobile phone market, however, its viral had been declined. In 2010, it was recorded that the market share of Nokia decreased to 41 percent, despite its over shadowed image. More importantly, between period from 2010 to 2012 – Nokia's market share fell from 35% to 5% within two years – marking an average of 62% per year which is according to nokia annual report, it is currently endangered its business as fall continues simultaneously (Ahonen and Moore, 2013) . At the same time, Nokia investigate the benefit offered by linux on mobile phones, thus, they decided to replace Symbian after a number of product generation with another operation system called MeeGo. As a consequence, this empowered the belief from Nokia's top managers that their vision and action were correct and would maintain to be top provider in mobile phone industry. In contrast, the reaction and respond from buyers appeared differently from Nokia's calculation and expectation after the introduction of Apple on iPhone due to the limitation in Nokia's products. Therefore, the Finnish mobile company had been the leader of mobile industry, failed in providing new strategy for a new mobile market. As a result, it has been a world record in market share fall in the mobile phone industry making a world record in failure for Nokia at that time.

In the author's point of view, Symbian of Nokia is apparently out of date comparing to new developments from rivals. Indeed, the innovation on "user interface" from Apple and Google, especially the feature multi touch operates on LCD screen that

controlled by Apple's operation system and interesting applications on iPhone selling through AppStore has defeated Nokia's technology.

Starting to observe this situation, the Finnish technology firm commenced to collaborate with Samsung in researching for a new software used in mobile phone, however, this project was cancelled. Thereafter, Nokia published Lumia smartphone based on Microsoft Windows 8 after being acquired by Microsoft. This phenomenon has led to a decrease in the market share of Symbian software as it did not absorb the multi-system action from Samsung and shifted to Microsoft operating system approach. By other way of explanation, Nokia might be panic or had been suffered a psychological shock of losing popularity, which led to a lack in determining innovative strategy for its smartphone operating system.

In general, Nokia failed in new market of smartphone due to its business structure and being an obstinate organisation that acted in a wrong direction. Not to mention, Nokia was a leader in mobile phone industry with numerous trending products, but it had to witness its market share declined significantly. The cause would be the complexity of smartphone's system was hard to adopt as well as since technology is changing every day, economy of scale among smartphone segment has broadened that altered almost old segments. Furthermore, the superior design of smartphone is the major factor that determine its position in the market as new design appears, the old one would be ignored.

2 The relevance of Porter's Five Forces in Nokia

The Porter's Five Force reflects the level of competition between the mobile industry. Generally, the cost to start up or to enter into mobile industry is tremendously high, thus, the probability came from threat of new entrants is quite low. Moreover, Nokia stated that they hold a significant proportion in the mobile phone industry around the globe, thus, new players would need to consume a large amount of time for R&D process to "knock-out" rivals. Because new players need to invest both time and money in launching innovative products and building companies' images, they are clearly be unavailable in the mobile phone market for a long time. In this context, competition comes from competitor, who has already existed in the same industry which may not be classified as the Force: Threat of new entrants in Porter's framework.

The Finnish company, Nokia, has built an international figure among every segment of customer for decades. With their position, Nokia gain advantage in bargaining and negotiating with suppliers from hardware to software, indeed, there would several suppliers are willing to supply equipment and tool kit for Nokia if the firm meets issue with current suppliers. It could be considered that being suppliers for Nokia is a marketing strategy from the side of suppliers, because there would be more benefits than disadvantages. However, since the acquisition of Microsoft in 2014, the main supplier for Nokia is this American corporate, who is owning stronger bargaining power.

Not to mention, the more develop the technology world, the more competitive the competition between mobile phone corporates as there are various

appealing choices for buyers to choose. Additionally, rival firms are selling similar products with identical features as Nokia and might offer tempting price for buyers. This would create a higher power of customer because they can switch to other providers with a more reasonable price in order to have the best value of consumption. Further, Nokia does not own flagship store to sell their products directly to consumer, they normally sell mobile phone via retails that is a disadvantage for Nokia to absorb customer's reaction as well as selling and providing the best information of products to fulfil customers' needs.

In a nutshell, the power of suppliers is not applicable in the story of Nokia, while the power of customer is. Last but not least, it is clearly seen that the threats of substitute's products are not relevant in the situation of Nokia's failure. The reason is mobile phone provide customer a convenient use and the mobile phone itself is very compact comparing to other communication devices. Recently, the habit of using mobile phone by human is not only to communicate with others, but also combining browsing website, playing video games, studying, excising via sport applications. Furthermore, substitutes can be tablets, laptop or portable video games, which does not provide the "full package" as mobile phone and they are particularly in bigger size comparing to mobile phone.

IV. Conclusion

Unfortunately, not only Nokia but also other corporates in technology industry and other industries have absorbed that the need of strategic change is necessary. Nevertheless, in the case of Nokia, it did realise the fundamental of change in business structure and strategy, but their actions came “too late”. Therefore, it is essential for managers and CEOs to perceive and notice distinctive drivers as well as kind of strategies a firm need to take.

And then of course, there are those all-important patents. Thanks to Nokia's early dominance, it owns many crucial patents on which the mobile industry relies. It also demonstrates a strong statement that changes are crucial and necessary. Management change is happened every day, in this digital era, management change should be in line with customer's behaviour and no corporation, even a giant leader, in the industry should be ever resist the change by its all means. To conclude, it is clearly seen that the end of Nokia is near, however, many believe it is in good shape to move forward and under the help of Microsoft, the Finnish company would definitely “come back on stage” in the near future (Dave, 2013).

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