



## Who Killed Nokia? Nokia Did

**Despite being an exemplar of strategic agility, the fearful emotional climate prevailing at Nokia during the rise of the iPhone froze coordination between top and middle managers terrified of losing status and resources from management. The company was wounded before the battle began.**

Nokia's fall from the top of the smartphone pyramid is typically put down to three factors by executives who attempt to explain it: 1) that Nokia was technically inferior to Apple, 2) that the company was complacent and 3) that its leaders didn't see the disruptive iPhone coming.

We argue that it was none of the above. As we have **previously asserted**, Nokia lost the smartphone battle because divergent shared fears among the company's middle and top managers led to company-wide inertia that left it powerless to respond to Apple's game changing device.

In a **recent paper**, we dug deeper into why such fear was so prevalent. Based on the findings of an in-depth investigation and 76 interviews with top and middle managers, engineers and external experts, we find that this organisational fear was grounded in a culture of temperamental leaders and frightened middle managers, scared of telling the truth.

### Deer in the headlights

The fear that froze the company came from two places. First, the company's top managers had a terrifying reputation, which was widely shared by middle managers—individuals who typically had

titles of Vice President or Director in Nokia. We were struck by the descriptions of some members of Nokia's board and top management as "extremely temperamental" who regularly shouted at people "at the top of their lungs". One consultant told us it was thus very difficult to tell them things they didn't want to hear. Threats of firings or demotions were commonplace.

Secondly, top managers were afraid of the external environment and not meeting their quarterly targets, given Nokia's high task and performance focus, which also impacted how they treated middle managers. Although they realised that Nokia needed a better operating system for its phones to match Apple's iOS, they knew it would take several years to develop, but were afraid to publicly acknowledge the inferiority of Symbian, their operating system at the time, for fear of appearing defeatist to external investors, suppliers, and customers and thus losing them quickly. "It takes years to make a new operating system. That's why we had to keep the faith with Symbian," said one top manager. Nobody wanted to be the bearer of bad news. However, top managers also invested in developing new technological platforms that they believe could match the iPhone platform in the medium term.

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## **“Top management was directly lied to”**

Top managers thus made middle managers afraid of disappointing them—by intimating that they were not ambitious enough to meet top managers’ stretched goals. One middle manager suggested to a colleague that he challenged a top manager’s decision, but his colleague said “that he didn’t have the courage; he had a family and small children”.

Fearing the reactions of top managers, middle managers remained silent or provided optimistic, filtered information. One middle manager told us “the information did not flow upwards. 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]. Then your supervisor went to present it to the higher-level executives. There were situations where everybody knew things were going wrong, but we were thinking, “Why tell top managers about this? It won’t make things any better.” We discussed this kind of choice openly.”

This shared fear was exacerbated by a culture of status inside Nokia that made everyone want to hold onto power for fear of resources being allocated elsewhere or being demoted and cast aside if they delivered bad news or showing that they were not bold or ambitious enough to undertake challenging assignments.

## **Innovation impotence**

The high external fear among top managers and high internal fear among middle managers led to a decoupling of perceptions between the two groups of top and middle managers about how quickly Nokia could launch a new smartphone and develop advanced software to match the iPhone. Given the optimistic signals coming from the middle managers, top managers had no qualms about pushing them harder to catch up with Apple—after all, top managers were only stretching targets. Fearful that Nokia would lose its world dominance and post weak financial results, top managers exerted pressure on middle managers to deliver a touchscreen phone quickly. They acknowledged this in interviews with us. “The pressure we put on the Symbian software organisation was insane, because the commercial realities were so pressing. You must have something to sell” said one top manager.

A leader from the MeeGo organisation, which was set to be the successor technological platform to Symbian said, “we spoke of a delay of at least six months, if not a year. But top managers said ‘let’s go, you have to run faster.’”

Beyond verbal pressure, top managers also applied

pressure for faster performance in personnel selection. They later admitted to us that they favoured new blood who displayed a “can do” attitude.

This led middle managers to over promise and under deliver. One middle manager told us that “you can get resources by promising something earlier, or promising a lot. It’s sales work.” This was made worse by the lack of technical competence among top managers, which influenced how they could assess technological limitations during goal setting.

As one middle manager pointed out to us, at Apple the top managers are engineers. “We make everything into a business case and use figures to prove what’s good, whereas Apple is engineer-driven.” Top managers acknowledged to us that “there was no real software competence in the top management team”.

## **The final blow**

Nokia therefore ended up allocating disproportionate attention and resources to the development of new phone devices for short-term market demands at the expense of developing the operating system required to compete with Apple.

The quality of Nokia’s high-end phones thus gradually declined. In 2007, Nokia launched the N95 smartphone, which had full music features, GPS navigation, a large screen (albeit not a touch screen) and full internet browsing capability. Software compromises were accepted to get it ready on time. It was a success, but serious quality problems soon emerged.

In 2008, Nokia launched its first touchscreen phone, the 5800, at a lower price point than the iPhone. It was a commercial success but it was about “one and a half years late” because of software development problems. In 2009, the N97 was launched to overthrow the iPhone, but one top manager admitted the phone was “a total fiasco in terms of the quality of the product.”

In 2010 came the purported “iPhone killer” with a touchscreen, one year later than planned, but it underperformed in usability and failed to match up to the sleek competition of iOS and Android. A new CEO—Stephen Elop—hired later that year decided that Nokia would be better off buying software from elsewhere and formed an alliance with Microsoft in 2011. As we know, this move accelerated the company’s decline and Microsoft went on to acquire Nokia’s phone business in 2013. The market value of Nokia declined by about 90% in just six years, hovering around 100 billion US dollars.

Despite its enormous R&D firepower, its technical prowess and foresight — Nokia’s patents still generated about US\$600 million a year paid by its thriving rivals like Apple and Samsung — Nokia’s ultimate fall can be put down to internal politics. In short, Nokia people weakened Nokia people and thus made the company increasingly vulnerable to competitive forces. When fear permeated all levels, the lower rungs of the organisation turned inward to protect resources, themselves and their units, giving little away, fearing harm to their personal careers. Top managers failed to motivate the middle managers with their heavy-handed approaches and they were in the dark with what was really going on.



While modest fear might be healthy for motivation, using it indiscriminately can be like overusing a drug, which risks generating harmful side effects. To reduce this risk, leaders should be attuned to the varied emotions of the collective. As Huy pointed out **in other research**, those able to identify varied collective emotions are seen as effective transformational leaders. Leaders can develop a collective **emotional capability** in their organisations. Fear can only be a useful motivator if management can provide workers with the means to address these fears. Nokia’s top managers should have encouraged and role modeled more authentic and psychologically safe dialogue, internal coordination and feedback mechanisms to understand the true emotional picture in the organisation. They might then have been able to better gauge what was possible and what was not, and most importantly, what to do about it.



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