Author(s): Lamberg, Juha-Antti; Lubinaitè, Sandra; Ojala, Jari; Tikkanen, Henrikki

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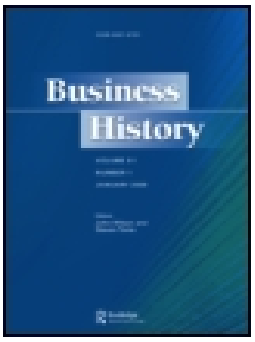

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The curse of agility: The Nokia Corporation and the loss of market dominance in mobile phones, 2003–2013

Juha-Antti Lamberg[a], Sandra Lubinaitė[b], Jari Ojala[c] and Henrikki Tikkanen[d]

[a]Jyväskylä School of Business and Economics, University of Jyväskylä, Jyväskylä, Finland; [b]TELIA Corporation, Vilna, Lithuania; [c]History and Ethnology, University of Jyväskylä, Jyväskylä, Finland; [d]Marketing, Aalto University School of Business, Espoo, Finland

ABSTRACT

We investigate how and why the Nokia Corporation failed to develop a successful strategic response to the threats of Apple and Google in the smartphone business and instead worsened its situation through several badly timed decisions. We identify key choices in technology and organisational design that jointly constituted sufficient cause for the abandonment of the mobile phone business. By focusing on choices instead of attributes (e.g. fear or hubris), we make progress in strategic failure research and simultaneously emphasise the strength of oral history methods and the philosophy of history as fruitful starting points for such an inquiry.

KEYWORDS

Strategy; technology management; decision-making; business history; oral history; Nokia

In business history, we can think of very few other cases in which new competitors so quickly and forcefully dethroned an overwhelmingly dominant market leader (cf. Langlois, 1992; Finkelstein, 2006, Van Rooij, 2015) as the case of the Nokia Corporation between 2007 and 2013. Nokia was by no means a passive follower of the novel competitive landscape dominated by the emergence of the smartphone. Nevertheless, its major strategic decisions towards the end of the period of analysis made the situation worse and aggravated the company's plight. In this article, we provide an historical analysis of the strategic decision-making process at the Nokia Corporation. Considering its technology and organisational design choices, we examine how and why Nokia failed to safeguard its strong market leadership in the global mobile phone market between 2007 and 2013. Earlier research on Nokia's misfortunes has found both simple answers (Vuori & Huy, 2016) and very complex ones (Cord, 2014; Doz & Wilson, 2017; Risku, 2010) to this question. Following Van Rooij's (2015) lead, we aim to find a solution that is both theoretically sound and respects historical reality from Nokia's strong technological dominance in the early 2000s – being global market leader with almost 40 per cent share from mobile phone markets in 2008 (see Appendix 3) – to the divestment of its entire mobile phone business unit to Microsoft in 2013.

Our empirical focus is thus on technology choices and decisions concerning organisational design. By technology choices, we refer broadly to stop-go decisions concerning specific technologies and research and development processes and by organisational design we refer to choices concerning organisational structure and incentives. With respect to

CONTACT Juha-Antti Lamberg juha-antti.lamberg@jyu.fi

technology choices, we ask the following question: Why did Nokia invest so heavily in its own more or less outdated Symbian software platform even after major competing smartphone platforms – iOS and Android – emerged in 2005–2007 and quickly proved themselves hugely successful? Subsequent question – if and when Symbian development was so difficult and expensive – is the reason why Nokia at the same time also invested in other platform options (at least MeeGo, Maemo, Android, and Meltemi platforms)? Further, all this happened during the critical years after iPhone's emergence and would have required building extensive technological capabilities to implement any of these alternatives accordingly.

Regarding organisational design choices, we focus on Nokia's dominant management philosophy of the era, called 'strategic agility' – and its antecedents and consequences. Doz and Kosonen (2010) define this concept largely based on their experience at Nokia through the organisational capability to quickly change strategic direction using strategic sensitivity, resource fluidity, and top management leadership unity. The paradox we address is that mentally, Nokia's top management was fully prepared to meet new competitors with an 'agile' mentality and willingness to keep the organisation in a constant state of 'structured chaos' (Brown & Eisenhardt, 1997). However, the organisation actually regressed to sluggish decision-making at the top and fierce internal competition between alternative technological platforms at the lower levels of the organisation. Nevertheless, we want to emphasise that Nokia's failure in the mobile phone market is not a story of defunct leadership at the top of the corporation *per se*. On the contrary, we see Nokia as a prime example of the performative aspects of contemporary management thinking in its search for an agile organisational form and its use of top-tier professors and prominent management consultants as catalysts in the process. However, sometimes an organisation is ill prepared for this type of novel thinking, and the resultant new ways of working may severely distort the functioning of some of the core processes of the organisation, in this case technology management (including more traditional research and development activity). This tension makes the history of the corporation very interesting as a natural experiment of the performative effects of strategic management ideas and fashions (Abrahamson & Fairchild, 1999).

Our research makes two contributions. First, it joins earlier critiques of causal inferences in case studies by showing the complex nature of strategic failure processes and the consequences of that complexity. Essentially, without access to company archives, all research on Nokia (or any other corporation) remains tentative. This is not a problem if we realise the limits of our research, but most of the similar case studies published even in top management journals ignore these limitations when seeking theoretical explanations, contributions and 'being interesting' (Barley, 2016; Davis, 1971). Second, we identify key choices in technology and organisational design that jointly constitute sufficient cause for the abandonment of the mobile phone business. By focusing on choices instead of attributes (e.g. fear or hubris), we make progress in explaining strategic failure research and simultaneously emphasise the strength of oral history methods and more broadly the philosophy of history as fruitful starting points for such an inquiry.

Literature review

One key question in both business history and strategic management is to understand why firms differ in their investment choices and subsequent performance (Kornberger, 2013). Consequently, firms' failure to make choices that result in long-term positive economic performance is a central research topic. Ever since some seminal contributions (Ghemawat, 1991, Mokyr, 1990; Henderson & Clark, 1990), researchers have turned their attention to different industries and analysed cases of failure, for example, in manufacturing (Lorenz, 1991; Magee, 1997), service industries (e.g. Bakker, 2005), and high-tech industries (Cusumano, Mylonadis, & Rosenbloom, 1992; Langlois, 1992). The research on failed technology adaptation and erroneous technology choices typically frames incumbent firms as particularly slow in making radical changes to their products (Ansari, Garud, & Kumaraswamy, 2016; Christensen, 1993). The Beta vs VHS video standard is a classic case in which customer needs (e.g. video rentals and recording time) and ecosystem building were the major determinants in VHS's victory over its competitor (Cusumano et al., 1992).

Beginning by explaining performance problems through hindsight is problematic in terms of causal explanations. For example, the well-known case study on the demise of Polaroid (Tripsas & Gavetti, 2000) highlights the role of top management cognition as a crucial impediment to strategic renewal. Similarly, Danneels (2011) frames the failure of the typewriter manufacturer Smith Corona to adapt to computer-based word processing as a cognitive problem – managers of Smith Corona could not adapt their mindsets to the new technological era. Both case histories have been important in developing our theoretical understanding of strategic failures; however, they are problematic as causal explanations (see Cornelissen and Durand (2012) for a thorough discussion; Denrell, 2003; Rosenzweig, 2008). First, by stating that biased or narrow ways of thinking by the top management team (i.e. in managerial and organisational cognition) resulted in organisational collapse is not the same as inferring a bullet or a shooter pulling the trigger caused a person to die in a shooting incident. In the shooting case, A causes B, but in both the Smith Corona and the Polaroid cases, we know that A (top management team cognition) and B (organisational collapse) may *co-occur*, but this has little to do with a causal explanation and probably not even with a causal inference (see Mahoney, 2000; Pearl, 2000).

In general, causal reasoning is especially challenging in disciplines such as business history or strategic management. The challenge originates from the philosophical difficulty of making theoretical generalisations from empirical findings (Ketokivi & Mantere, 2010). In principle, all inductive reasoning is speculative, as researchers cannot control all alternative explanations (Mahoney, 2003) or run a counterfactual analysis (Morgan & Winship, 2015), which is the strongest test of causality. In single case studies in which the motivation for the study is to explain backwards from the outcome, causal inference becomes very difficult, if not impossible. Thus, studying Nokia's unfortunate years in 2007–2013 with the CEO and Chairman of the Board, Jorma Ollila, or some other absent factor would pose a great analytical challenge, excluding simulations (compare Harvey, 2012). However, this type of approach would be the only way to arrive at the causal conclusion that Nokia was managed deficiently.

As Ketokivi and Mantere (2010) describe, scholars have taken different positions as a consequence of the dilemma of causal inference in inductive studies. One group of scholars has adopted an explanatory viewpoint, emphasising the value of theoretical explanations in science. For example, a study may be valuable because it is interesting and provokes new ideas (Davis, 1971), even though its empirical grounding is not solid. In contrast, a Spartan view starts from a premise that truth (Seale, 1999) or the search for truth-like explanations (Danermark, Ekström, & Jacobsen, 2005) is the only acceptable virtue in science. This approach motivates the critical realists in business history (Kipping & Lamberg, 2016) and social sciences in general (Mahoney, 2000) and is something that our research aims to achieve.