Nokia Case Study

Introduction:

The fundamental question in the field of strategic management is how organisations achieve and sustain competitive advantage (Teece, et al, 1997) and therefore attain above industry-average profit. However, since both the business environment and individual firms are dynamic systems, continuously in flux, it is a big challenge to achieve a fit between these two systems (de Wit B and Meyer R., 2004) and therefore get the competitive advantage. This essay will firstly assess and consider the balance of market-led and resource-based approaches from the academic point of view. These two approaches should be viewed as complementary (Prahalad and Hamel, 1990; Mintzberg et al, 1995; Greenley and Oktemgil, 1996). Following the discussion, the essay just analyzes Nokia's strategies and empirically justified the reciprocal and complementary relationship between these two approaches. On the process of Nokia's development, the company achieved success because it could balance these two approaches well. Once it failed to do so, the company immediately suffered the fall in 2004, lost market share and decreased the revenue. However, the company quickly recovered because it followed the market trends, and simultaneously its strong internal strengths neutralised the external threats. In addition, I will argue that Nokia can maintain its market share and its market leader position in the following years based on the good market opportunities in mobile phone industry and its strong internal resources basis. Secondly, this essay will assess Nokia's strategies in terms of emergent and planned approaches as well. Within the dynamic and complex mobile phone industry, both approaches are necessary if Nokia is to succeed. In conclusion, all four approaches discussed collectively promote Nokia's success.

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Part 1: Market-led and Resource based approaches

'Firms need to adapt themselves to market developments and they need to build on the strengths of their resource bases and activity systems' (de Wit B and Meyer R., 2004, p249). In reality, on one hand, some argue that an organisation needs to adapt itself to its environment. Managers should take the environment as the starting point, choose an advantageous market position and then gradually set up the resource base and activity system necessary to apply this choice. On the other hand, some argue that the organisation can adapt the environment to itself. Managers are required to take the organisation's resource base as the starting point, selecting an environment to fit with its internal strengths (de Wit B and Meyer R., 2004).

According to the first view, successful companies are externally oriented and market-driven (Day, 1990; Webster, 1994), and this view is also referred to as ‘outside-in’ due to its focus on the environment (de Wit B and Meyer R., 2004). The companies with an outside-in perspective take the environment as the starting point, set on developments in the market-place and adapt themselves to the external opportunities and threats encountered. They use the signals from customers and competitors to decide their own game plan (Jaworski and Kohi, 1993). So, ‘for these successful companies, markets are leading, and resources are following’ (de Wit B and Meyer R., 2004 p.250). Furthermore, proponents of this market-driven approach tend to emphasize that an insight into markets and industries is essential. They argue that not only the general structure of markets and industries need to be analyzed, but also specific demands, strengths, positions and intentions of all main forces need to be determined. As to Porter’s view (1980, 1985), this approach has spawned five forces, generic strategy and value chain frameworks. What’s more, many market-driven advocators suggest firms to initially lead market and industry to change, therefore, they can get the benefit from the altered rules of the game (de Wit B and Meyer R., 2004). Smirchich & Stubbart (1985) agreed with this opinion, and already pointed out firms can, in part, create their environments through strategic alliances with stakeholders, investments in leading technologies, advertising and a variety of other activities. Concluding the advantages of this approach, Lieberman and Montgomery (1998) argued that firms that are market-driven are always the first ones to recognize that new resources or activities need to be developed. So those firms are better positioned can benefit from the ‘first mover advantage’. More significantly, Market positioning is vital for the company’s success.

However, some argued that market positioning is vital, but must take place within the boundaries set by the resource-driven strategy (de Wit B and Meyer R., 2004). That is, the market position selected is adapted to fit the organization’s resource base. So for successful companies, they need to firstly build up a strong internal resource base, and then based on this strong resource base they can access to unfolding market opportunities in the medium and short term. In essence, this ‘inside-out’ approach assumes that competitive advantage depends upon the behavior of the organisation, rather than its competitive environment (Stonehouse and Pemberton, 2002). Moreover, the proponents of this approach stressed that the importance of a firm’s competences over its tangible resources (de Wit B and Meyer R., 2004). Strategists have variously referred to the basis of this strategy as ‘competence based’ (Prahalad and Hamel, 1990; Sanchez et al, 1996) or ‘capabilities –based’ (Stalk et al, 1992; Teece et al, 1990). Collis and Montgomery (1995) also pointed out that having distinctive or core competences can be a very attractive basis for competitive advantage, since rival firms normally need to take a long time to catch up. Even if competitors are successful at identifying the competences and imitating them, the company with an initial leading position can still upgrade its competences and stay ahead. So, 'for success, resources should be leading, and market following' (de Wit B and Meyer R., 2004, p.252).

In practice, Hofer and Schendel (1978) found both positioning and resource deployment issues are critical for creating a competitive advantage. So, they argued that competitive superiority stems from the ability to align positional advantages and resource-based elements of strategy. Meanwhile, some other experts further suggest that the two approaches should be viewed as complementary, since organisations need to develop both internal and external focus to develop knowledge-based core competences and market driven strategies sensitive to customer needs (Prahald and Hamel, 1990; Minzberg et al., 1995; Greenley and Oktemgil, 1996). Therefore, both approaches are needed to be considered and balanced simultaneously in making the strategic choice.

Actually, Nokia can achieve the great success in the mobile phone industry, one important factor is that it can align these two approaches – market-driven strategy and resource based strategy during the process of its development. Once it failed to do so, the company immediately suffered the fall, lost market share and decreased sales revenue. Certainly, when the company aligned these two approaches again, the company got the recovery soon. In the following part, the essay will assess the company's strategy change between these two approaches and the results correspondingly.

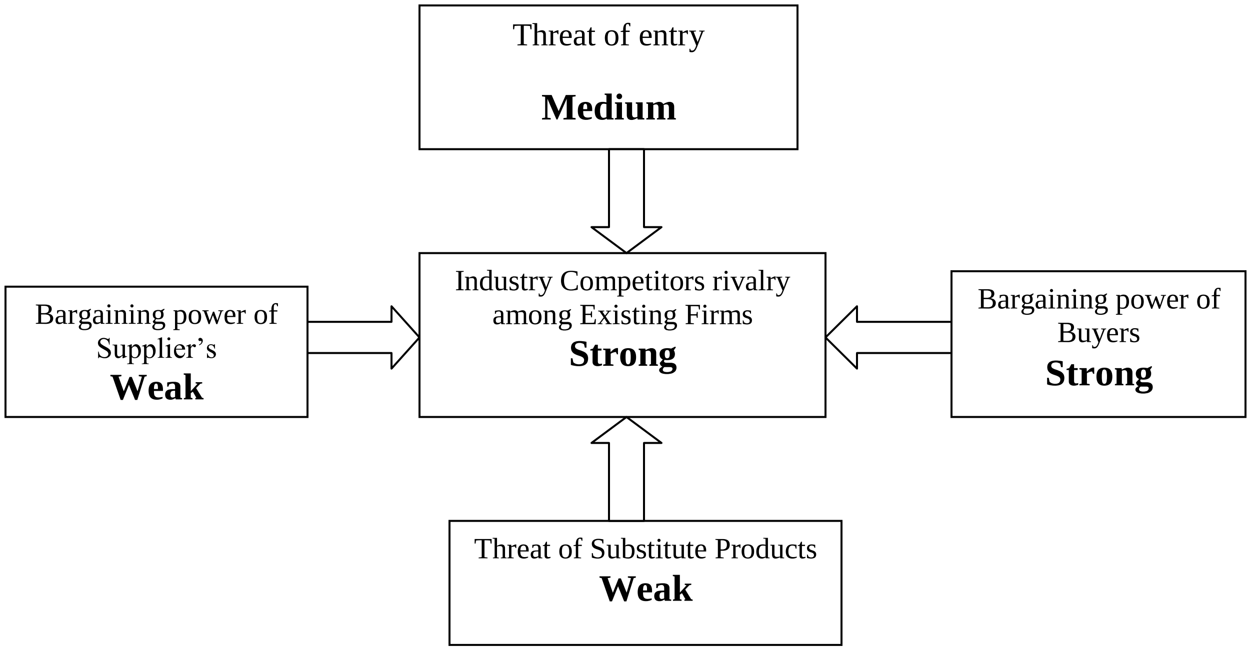
Since those early days, Nokia has evolved into a conglomerate encompassing several industries. With the collapse of the USSR in 1990, Nokia suffered the high pressure to survive in so many different areas. Based on the new market opportunity the company predicted in mobile phone industry and its internal strengths-advanced technology on mobile phone sector (the company had the world's first international cellular mobile telephone network and first producer of hand portable phones), Nokia finally decided to focus on mobile phone industry. Soon Nokia achieved the success in the mobile phone industry and becomes the largest mobile phone company in the world. Without the external threats, the new market opportunities and its internal strengths on the mobile phone sector, Nokia may have not entered into the mobile phone industry at all. Therefore, both internal and external factors influenced Nokia's strategic choice simultaneously. As Porter (1985) pointed out, the firm can clearly improve or erode its position within industry through its choice of strategy. The big success Nokia quickly achieved in the mobile phone industry justified that the company's choice was right, but this choice was made on the integration of market opportunities and Nokia's internal strengths.

As Teece and Pisano (1994) pointed out, a successful firm can develop the necessary capabilities to adopt or to shape the external environment, such as a new product, technological and market change. Over time, Nokia realised the importance of the design element in mobile phones. Moreover, they realised that the phone would no longer play just a functional role, but would also become fashion symbols. Since the company first broke new ground and launched its differentiating and innovative handset -8210 instead of the popular bulky and bricklike device, the company shaped the customer needs and led the market change. For Nokia, it not only achieved the ‘first mover advantage and increased its market share, but also established a strong brand name in the mobile phone industry and gained an extensive lead over competitors in this area. Furthermore, based on the successful innovations from employees, such as text message, Nokia’s Navikey, internal antennae design and so on, Nokia constantly updated its competence and gradually became the market leaders. Obviously, this transition required both an inside-out capability to produce the custom products, which is differentiated with the competitor’s, and an outside-in capability for understanding the evolving requirements of customers and energizing the organization to respond to them. Meanwhile, it also implied that market-led strategy and resource-based strategy have a reciprocal relationship, indeed, they complement each other. Following these successes, Nokia further solidified its market position based on its strong internal resource; meanwhile, company’s ability of sensitive of market trends lead the company to update its competence in a race to stay ahead.

In the early 2000s, Nokia’s strategy drift further justifies the importance of the integration of these two approaches. Within a period of time, Nokia just concentrated on developing the high-end mobile phones and the complicated software tending to supply the technologically advanced products and surpass the competitors, while paying insufficient attention to external developments. Actually, at that time, the market was not ready for such devices. Eventually, the slow growth of customers’ demand for the advanced mobile phone caused Nokia to wait for the market. Thus, the company’s distinct competence on technolologically advanced products did not improve its performance and bring the competitive advantage due to its failure to meet the customers’ needs and its blunt market sense. Since Nokia realised what mistakes it had made, it soon adjusted the strategy. Followed the market trends, Nokia aggressively launched several new models of phones in June 2004 based on its strong resource capability, meanwhile, reduced the price of the phone. The company quickly recaptured its market share and increased revenue. The reason why the company recovered so soon was the ability that the company integrated again its inside-out capabilities and outside-in capabilities that matters.

Based on the above analysis, marketing-led strategy and resource-based strategy both played key role in Nokia’s process of success. Indeed, these two approaches have a reciprocal and complementary relationship. In addition, based on Nokia’s internal resources and external business environment (From the supplied case information), I will assess whether it will be end of its dominance in mobile phone industry through Porter’s five forces (Porter, 1985, 1998) and Barney’s framework (Barney, 1991) as follows.

Nokia - External Analysis (Porter, 1985, 1998).



a) Threat of entry

Microsoft Corp announced its decision to enter the mobile phones market,

it could bring the big threat to Nokia. However, it is only an announcement.

New network operators can supply the customized, operator-specific handsets.

New emerging competitors from Asia

So, Nokia will meet more intensive competition than before.

b) Threat of the substitutes
There is no direct substitute in mobile phone industry, especially for Nokia's advanced products

c) Bargaining power of suppliers
Since Nokia is the market leader in the mobile phone sector, Nokia is in the strong position.

d) Bargaining power of buyers
In handsets market, end users are not directly purchasing handset from Nokia, instead they purchased from the service providers. Since the market becomes more sensitive to the price, Nokia could meet the strong bargaining power from the buyers.

e) Rivalry among existing competitors
There is intensive competition in mobile phone industry. The competitors include Samsung, LG, Sony Ericcson and other new emerging manufactures.

Nokia SWOT analysis (Barney, 1991).

Internal analysis (Resource-based model)

Strengths – Having the advanced technology over the competitors in the mobile phone industry

– Decentralized company structure, innovative and creative employees and Charismatic strong leader, such as: Jorma Ollila.

– The market leadership in the mobile industry.

– Strong brand name and company image in the global market

– Has its own manufacture and network.

– Product innovation.

– Economy of scale

Weaknesses – Complacency and arrogance.

– Few customized, operator-specific handsets.

– Few alliances, company sticks to its standing in the market, do not want to cooperate with the operators.

External analysis (Environmental models of competitive advantage)

Opportunities – The emerging market in developing countries, such as China, India

– The emerging market for high-end mobile phone such as business user phone.

Threats – Facing more new competitors, especially from Asia.

– Stronger buyer power from the network operators.

– Lost market share

– Strong competition in mobile industry

– The market becomes saturated

Based on the above analysis, I agreed that Nokia has the potential to remain a major presence in the global mobile phone industry in the following years. The external mobile phone market environment is dynamic, Nokia has lost its market share due to the misinterpretation of the market trends and customer needs. But the market also brings the big potential opportunities to Nokia, such as the market in developing countries, customized business user mobile phones and so on. Moreover, the most important of Nokia's internal strengths, such as the advanced technology, innovative products, economy of scale, could let it surpass the competitors and solidify its market leader position; Furthermore, Nokia can benefit further from its strong brand name and company image. While the fall in 2004, to some degree, just reminds Nokia of the need to overcome its complacency and arrogance and to be more sensitive to customer needs. So, Nokia can maintain its market leader position in the following year in the global mobile phone industry. In fact, Nokia's market share in handset market has increased to 39% in 2007 (BBC New, 2007).

Part 2: Planned and emergent approaches

Another keen argument is about the planned and emergent approaches to strategic management (De Wit and Meyer, 2004). Some argue that strategy is deliberate and should be deliberately planned and executed. Managers are required to predict the future and to orchestrate plans to pursue an intended strategic result (De Wit and Meyer, 2004 & Harrison, 2005). In essence, this approach tends to emphasise long-term planning designed to achieve a 'fit' between an organisation's strategy and its environment (Ansoff, 1965; Andrews, 1987). However, heavily structured planning is clearly inappropriate in times of rapid and turbulent change. In addition, it is evident that, in practice, many strategies simply emerge from a stream of decisions, which is better suited to dynamic and hypercompetitive environments (De Wit and Meyer, 2004 & Harrison, 2005). Thus, some argued that organisations that limit themselves to acting on the basis of what is already known or understood will not be sufficiently innovative to create a sustainable competitive advantage (Mintzberg, 1990).

However, in practice, planning and emergent approaches are both useful, they should not be seen as independent or mutually exclusive (Johnson el al, 2005). A firm can, but not fully, commit to detailed and coordinated long-term plans, while, simultaneously adapt itself flexibly and opportunistically to unfolding circumstances (De Wit and Meyer, 2004). That is, both planned and emergent approaches are necessary, and if an organisation is to succeed, managers need to try to strike the best possible balance between the two.

Nokia had planned to develop the high-end mobile phone and invested heavily on its advanced products; meanwhile, the company also as planned underwent an internal reorganisation aiming for the future sustainable growth. However, during 2003-2004, Nokia suffered the fall in the mobile phone market. Since the company realised that the market was not yet ready for this technology and operating system. The company emergently adjusted its strategy again, and designed five new models of phones to meet the customers' needs; meanwhile, the company followed the market trends and cut the price of phones. Soon the company recaptured the loss in the market share. In addition, the company gradually changed its stand and started to cooperate with the mobile network operators. These emergent strategy changes showed that Nokia no longer stuck to its previous planned strategies, while simultaneously adopted some emergent strategies in order to meet the customer needs and dynamic business environment. Actually, faced with the prospect of industry saturate and increasing international competition in the mobile industry, Nokia will face more strategic choices. So, Nokia will need more emergent and planned strategies to respond to this dynamic global market based on the different business environment and situation.

Conclusion:

Based on the above assessment of Nokia's approaches to mobile phone industry, although the approaches present as contradictory and conceptually opposed, in practice, they actually present a reciprocal and complementary relationship to each other. Arguably, no single approach can facilitate the company achieve the success within such a dynamic and complex mobile phone industry. Therefore, the various approaches should be viewed as complementary. Because Nokia adopted the balanced various approaches in its previous time, it gradually achieved the market leader position. Since Nokia lost the control to make sense the market trends and concentrated on its planned strategy, the balance between the different approaches also lost. Thus the company's market share fell immediately. As Nokia adjusted its strategy, aligned its internal strengths and external opportunities and balanced the emergent and planned strategies, the company recaptured its market share again. Therefore, if Nokia wants to get the long term development in the mobile phone industry, the four approaches are all necessary.

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