

Difficult times ahead for Finnish companies?

Finnish and Global Executives' Assessments of Their Firms in 2012



By Boris Groysberg and Kalle Heikkinen

NAG EXECUTIVE FORUM

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About the Survey

Since 2008, the Finnish management consulting firm NAG has hosted an annual forum for top executives in Finland. The participants, all C-level managers, represent prominent private, public and state-owned companies, ranging from traditional industrials to financial services. The events consist primarily of case discussions and presentations on the latest thinking about leadership, innovation and talent management. Each year, a survey has been distributed to participants at the NAG forum, and each participant has been asked to then distribute the survey to five peers at his or her firm. Respondents are asked to score their companies, on a scale of one to five, relative to their peers on leadership, innovation, organizational design, strategy, culture and human capital. The survey also asked six open-ended questions about each company's current strengths, weaknesses, threats and opportunities. We received 271 responses from 40 Finnish organizations in 2008: 83 in 2009, 86 in 2010, 55 in 2011, and 47 in 2012.

In 2012, an identical survey was administered to participants in an executive-education program at Harvard Business School. Program participants were senior corporate executives representing every continent and multiple industrial sectors. 3,600 responses were received from executives at about 350 companies and used to calculate global average scores. Both sets of surveys were conducted in English.

About Authors

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About NAG

NAG is a Finnish top management consulting firm that serves its clients in making and implementing key choices in strategy and organizational performance. It boasts a dedicated and experienced team with wide fields of expertise, and puts emphasis on providing unique, tailored solutions to its clients.

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Early indications suggested that the Finnish economy was recovering quite rapidly from the global economic slump of 2008, driven in part by demand from fast growing Asian economies. However, we detected some warning signs last year in our survey of Finnish and global executives. We noted that Finnish companies seemed to be content with their current positions, and that they were complacent. They exhibited a lower ambition for strategic growth and a lower appetite for diversification compared to their global counterparts. They also showed reluctance to introduce innovations that might cannibalize their existing profit streams. We concluded that this risk-aversion could pose longer term problems for Finnish companies as marketplaces changed and global competitors caught up.

In our 2012 survey of Finnish and global top executives, we found that Finnish executives' assessment of their companies' performance had declined on almost every single measure surveyed. The results were especially daunting when we compared Finnish executives' views to that of their global counterparts.

What was new in 2012 vs. 2011?

Overall, top Finnish executives were far more pessimistic about the overall prospects for the economy and their own performance in 2012 than in the previous year (see Table 1). These executives:

- were more pessimistic about future economic prospects
- observed more bureaucracy and slower decision-making in their firms
- were more willing to compete on price
- were less likely to compete on superior products
- were considerably less willing to grow geographically

We also found that some issues that we had observed in the past were worsening:

- low ambition for growth and diversification
- not being innovative

To balance these, there were not many positive signs.

Table 1. Largest changes in Finnish executives' ratings of their own firms between 2011 and 2012 and comparison to global executives' assessment in 2012

	2011	2012	Change from 2011	Relative to global 2012
How likely is the company to expand geographically?	3.17	2.32	-26.9%	-35.6%
How clearly is this company's value proposition communicated and understood by investors?	3.42	3.02	-11.8%	-16.2%
How compelling is the company's value proposition for its customers on superior products?	4.02	3.58	-11.0%	-8.2%
How non-bureaucratic is the company?	3.08	2.76	-10.5%	-16.5%
Next twelve months performance of the economy ⁽¹⁾	3.46	3.12	-9.7%	-15.6%
How compelling is the company's value proposition for its customers on driving innovation?	3.46	3.13	-9.6%	-13.1%
How good is the company at supporting experimentation?	3.30	3.00	-9.0%	-14.2%
How likely is the company to diversify into new businesses?	2.86	2.64	-7.6%	-17.5%
How compelling is the company's value proposition for its customers on superior services?	3.92	3.67	-6.2%	-8.1%
How often is the company at the leading edge of innovation in its industry?	3.39	3.18	-6.0%	-9.1%
How effective is the company at identifying and integrating mergers and acquisitions?	3.05	2.87	-6.0%	-7.5%
How clear are the company's values/norms of conduct?	3.87	3.64	-5.9%	-4.3%
Speed of decision-making	3.32	3.14	-5.5%	-15.1%
How compelling is this company's value proposition for its employees?	3.71	3.50	-5.5%	0.1%
How well does the company understand its competitors and their relative strengths and weaknesses?	3.31	3.57	7.8%	-3.6%
How compelling is the company's value proposition for its customers on low prices?	2.60	2.79	7.3%	-7.0%
How deep is the company's leadership bench?	3.15	3.30	4.9%	-2.9%

1 The performance outlook was derived by aggregating all answers to the survey question "Relative to other sectors, how do you expect the company's sector to perform during the next twelve months?" Scale: 1 = significantly less than company's peers; 5 = significantly more than company's peers.

While year-to-year and Finnish to Global comparisons should be treated with care because of the sample differences¹, the surveys still generated some interesting insights. Finnish executives had a much more pessimistic 12 month economic outlook than they did a year ago (-9.7%) and one that was considerably more pessimistic than the view of their global peers (-15.6%). Possible causes for this negative sentiment include increasing uncertainty around the prospects of the euro, softening demand in Asia, and the heavy publicity around the rapid fall of Nokia, a Finnish flagship company.

In our study from the previous year, we observed that the Finnish economy consisted of mid-sized companies that held strong positions in global niches. We noted that Finnish companies were not actively searching for growth opportunities, but rather defending their positions. Indeed, within the past year, the economic uncertainty has further amplified these tendencies.

In 2012, Finnish executives assessed that the likelihood of geographical expansion by their companies had declined by 26.9% from 2011, a view that was 35.6% lower than that of their global peers. In effect, global firms were feverishly seeking opportunities for strategic global growth, while Finnish companies demonstrated a decreased appetite for geographic growth. In addition, they indicated that they were looking less actively for opportunities to diversify into new businesses. For Finnish firms, this measure was down 7.6% from the past year, and 17.5% lower than that of

their global counterparts.

Innovation continued to be a challenge for many Finnish companies. In 2012, the survey scores for innovation were very low. In response to being asked how often their company was at the leading edge of innovation in their industry, Finnish executives' scores showed a 6.0% decline from 2011, and were 9.1% lower than that of their global peers. Similar weakness could be seen in their support for experimentation, resulting in a 9.0% year-over-year decline, and scores that were 14.2% lower than those of their global counterparts.

Finnish executives' comments confirmed that they had noted this shortcoming. One executive stated, "We should encourage the cannibalization of our own businesses to take place more aggressively." Another executive agreed, "The biggest threat is the fear of cannibalization when expanding to new businesses." Many acknowledged that if they did not follow through with this change, competitors would.

Finnish companies' traditional strategy in the global markets has been to compete with superior products and services while commanding premium prices. While price competition has not been seen as a major problem, Finnish companies did note that it was increasing (willingness to compete with low prices was up by 7.3% from 2011). In fact, some executives noted that Asian competitors had brought the price battle to their home turf. Simultaneously, Finnish executives reported a decline in their ability to compete with superior products (-11.0%) and superior service (-6.2%).

1 Participants at the NAG conference, who make up the survey population, change from year to year.

Moreover, we also noted some emerging organizational issues. In 2012, Finnish companies perceived themselves as being 10.5% more bureaucratic (relative to the prior year). The speed of decision making also dropped (-5.5%), and the Finnish score was 15.1% lower than the global average. A possible cause for this was the uncertainty of the business landscape. One executive commented, “Quicker decision-making is needed. Decision power needs to be closer

to businesses and customers.” Another executive concurred: “To improve, we need faster decision-making. We must rely more on people close to the customer and business.” Yet another executive agreed, “We are slow in executing on our strategy leading to loss of competitiveness.” Finally, another executive added, “We need to be faster, more agile in many respects, and executing strategy in the areas where middle management isn’t too comfortable.”

Positives in 2012

One measure that improved year-over-year was related to the firms’ better understanding of their competitors, a score that increased 7.8% from 2011. Given the negative developments described above, understandably Finnish firms took a better look at the competitive landscape, which might lead them to take stronger strategic actions in the future.

Additionally, there was an increase in scores related to the depth of the firms’ leadership bench. The war for talent reflected a global trend. The search for talent and efforts to build leadership benches were a global fight, and to discover that Finnish firms were taking a more serious stance on this matter was a refreshing find.

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