Success-Driven Complacency?

Finnish and Global Executives' Assessments of Their Firms

By Boris Groysberg, Kalle Heikkinen and Catherine Reilly

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Executive Summary

Finnish companies have performed reasonably well in recent years despite global economic turbulence. Many have adopted premium-price strategies in global niches whose demand has been driven by fast-growing Asian economies. Our survey suggests that this strategy of fine-tuning processes and refining existing niches, products, services and competences is likely to continue. But the survey also suggests that a focused strategy is not unadulterated good news.

Though Finnish companies appear to be well positioned for success in the near term, the picture looks somewhat worrisome over a longer 10–20-year horizon. Finnish executives view their positions as subject to considerable pressure from price competition, new players, new technologies and substitute products. Nevertheless, Finnish companies appear to be taking defensive postures rather than going on the offensive: they are not seeking to grow substantially, either in their core business or related spheres, or to diversify into new businesses. Unlike their global peers, Finnish companies also appear reluctant to introduce innovations that might cannibalize their current revenue streams. Without endorsing growth for growth's sake, we question whether Finnish firms are doing enough to build their future competitive positions. We also note that companies with credible growth plans tend to receive higher valuations in capital markets.

Finnish firms' ability to develop top-quality general-management talent also looks anemic. Our survey finds weakness in performance management, the executive talent bench and executive rotation. Finnish CEOs and boards are also perceived by their colleagues as weaker than their global peers. As a general principle, highly focused companies offer fewer opportunities to develop general-management skills than do more diversified companies. Recent CEO appointments at three prominent Finnish companies bear out this observation: Nokia's new CEO is a Canadian, Wärtsilä's a Swede and Kemira's a German. Our survey findings suggest that this trend will continue.

We conclude that Finnish companies must become bolder at innovation and experimentation, and that talented executives must begin to take responsibility for their own development. To ensure success in the long term, this paper proposes action plans for Finnish policy makers, companies and executives.

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For the last three years a group of C-level Finnish executives has responded to an annual survey soliciting their assessments of their companies' performance on drivers of organizational performance. 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 event consists primarily of case discussions and presentations on the latest thinking about leadership, innovation and talent management. The participants in our survey are attendees at the NAG forum.

Each participant is asked to distribute the survey to five peers at his or her company; thus, in most cases, several executives from each firm complete the survey. So far the survey has been conducted in 2009, 2010 and 2011. Its 47 questions ask respondents to rank their companies against peers on leadership, innovation, organizational design, strategy, culture and human capital. The survey also asks six open-ended questions about the company's current strengths, weaknesses, threats and opportunities. We have received 224 responses from 31 Finnish organizations: 55 in 2011, 86 in 2010 and 83 in 2009. This paper examines shifts in the participants' responses over time, and also compares their responses to those of a set of global peers who responded to the same survey in 2011.

An identical survey was also administered to participants in an executive-education program, Driving Performance through Talent Management, at Harvard Business School in 2011. Program participants were senior corporate executives representing every continent and multiple industrial sectors; fewer than 50 percent were U.S.-based. Again, each participant was asked to distribute the survey to five colleagues. We used the resulting 359 responses from 55 companies to calculate global average scores; we then used these scores to compare the Finnish executives rankings to those of their global peers. Both sets of surveys were conducted in English.

A Brief Portrait of Finnish Industry in 2011

The backbone of Finnish industry consists of mid-size to large companies operating in global niches whose demand is driven by fast-growing Asian economies. After several decades of portfolio restructuring and divestment, many formerly diversified Finnish companies are now clearly focused on specific geographic segments and product offerings: Nokia has focused on mobile phones, Ahlstrom on fiber, Wärtsilä on engines and Outokumpu on stainless steel. This trend continues; Sanoma, for example, is restructuring to focus on consumer media. A similar process of specialization is evident at the national level: according to some studies, the Finnish economy is among the most specialized in the world. Paper and pulp, the traditional foundation of the Finnish economy, has been superseded; recently Finland has become the most ICT-focused country in the world (OECD Factbook 2009). Finnish companies have performed relatively well in recent years despite global economic turbulence.

Finnish companies' strengths in 2011

Finnish executives grade their firms highest relative to their global peers in 2011 on superior products, superior services, and clear and well-communicated strategy (see Table 1). "Our strategy is strong, believable and empowering", one executive said. Another explained why he considers his company's strategy sound: "It is realistically aggressive, market-driven and positively challenging". Finnish executives also give their companies high marks for consistently meeting customers' expectations. As one executive put it, "Our company has an excellent reputation, technology portfolio, know-how and experience in execution of projects globally".

Finnish companies appear to expend considerable effort fine-tuning their operational systems, supply chains and delivery processes. These strategies for operational excellence are important for maintaining their competitive positioning. As one manager observed, "Our greatest strengths and the focus of our efforts continue to be excellence in product quality, delivery accuracy, knowledge of product & solutions".

Though Finnish executives gave their companies high scores for the transparency of their financial statements and policies, this virtue is not a competitive strength; it is simply a basic requirement of doing business. Also, the global benchmark exceeds the high Finnish score.

Finnish executives also gave themselves high scores for the strength of their balance sheets. Given the current uncertainties of the business landscape, it is understandable that companies are eager to safeguard their financial solidity. This too is a global phenomenon. One source of worry, however, is that Finnish executives describe their balance sheets as having been under pressure recently.

Table 1. Highest ratings assigned to their own firms by Finnish executives, 2011

	2011	2010	2009	2011 Global
How compelling is the company's value proposition on superior products?	4.02	3.81	3.73	3.72
How transparent is the disclosure of the company?	3.99	3.99	3.93	4.18
Superior service	3.92	4.00	3.87	3.82
Does the company have a clear and well communicated strategy?	3.91	3.56	3.33	3.50
How clear are the company's values/norms of conduct?	3.87	3.71	3.72	3.94

Scale: 1 = significantly less than company's peers; 5 = significantly more than company's peers.

Finnish companies' weaknesses in 2011

Finnish companies view their market positions as strong. Their qualitative comments make clear, however, that they see a tough competitive landscape ahead. "We see new competition in and from the emerging countries benefitting from our proprietary technologies and employees", said one executive. Another expressed more urgency: "Asian competitors are attacking our markets". A third expressed fear that the Internet and new technologies "will bring totally new types of competitors to our markets". Since Finnish companies typically occupy niches characterized by premium prices, it is unsurprising that their executives fear stepped-up price competition. Alarmingly, Finnish executives described their ability to compete with low prices as feeble relative to that of their peers (See Table 2). This scenario may present problems in the near future: most competition will come from Asia, where the low-cost game prevails. They pinpoint emerging markets, especially Asia, as the likely locus of both the biggest opportunities and the biggest threats. "We see harder competition", said one executive. "New players are entering from China, India and other Far East countries." The overall picture is that Finnish companies are highly committed to their niches and cautious about making big moves.

Finnish executives also gave low marks to their firms' willingness to introduce innovations that might cannibalize their existing revenue and profit streams. This is a troubling finding, since protecting their strategic positions against emerging competition will require creative solutions and sometimes radical innovations. Incremental innovations and operational improvements while important do not adequately address this issue. "We will need to be stronger at innovation", one executive acknowledged. "We will also need more flexibility and greater ability to react and respond to the changing business environment."

Finnish companies seem content with their current positions and more cautious than their global peers in investing for growth. Accordingly, Finnish executives give their firms low scores for willingness to diversify outside their current core business. It is no surprise that Finnish companies specialization and operational efficiency makes them an increasingly attractive targets of a merger or acquisition over the last three years.

Table 2. Lowest ratings assigned to their own firms by Finnish executives, 2011

	2011	2010	2009	2011 Global
How compelling is the company's value proposition for its customers on low prices?	2.60	2.59	2.85	2.77
How likely is the emergence of substitute products/services in the company's business environment in the next 12 months?	2.65	2.89	3.13	2.98
How willing is the company to introduce innovations that might cannibalize existing revenue and profit streams?	2.72	2.98	2.90	3.08
How likely is the company to be the target of a merger or acquisition?	2.76	2.56	2.54	2.69
How likely is the company to diversify into new businesses?	2.86	2.86	2.89	3.13

Scale: 1 = significantly less than company's peers; 5 = significantly more than company's peers.

Shifts in Finnish executives' views between 2009 and 2011

By examining shifts and constancies in participants' responses between 2009 and 2011, we can tentatively pinpoint persistent strengths and weaknesses of Finnish companies.

Largest increases between 2009 and 2011

Over the course of two years Finnish companies have clarified their strategies and fine-tuned their value propositions to investors (see Table 3). Executives now describe their companies as excellent at communicating their strategies internally and externally. "We have a great vision", one executive said, "which is appreciated by customers and motivated employees alike". Finnish companies have also stepped up their emphasis on providing superior products in their chosen niches. It is striking that during the same three-year period Finnish executives have increasingly predicted higher input prices and more new entrants into their markets. Competition is anticipated from many sources: one manager predicted "hypercompetition from the Internet" while another foresaw "cheap products from China".

In response to competitive challenges and macroeconomic uncertainty, Finnish companies thus appear to have chosen to play defense: to secure their strategic positions by pushing forward with honing their premium-price and niche strategies and playing on their strengths. They have been pursuing this strategy for several years. One executive argued for continuing to do so: "We need to continue to differentiate ourselves in our selected segments based on partnerships, our technical knowledge and our capability to produce more special products". Another concurred: "We need to specialize more and more in certain customer needs, and to move away from standard and bulk products". To support operational efficiency, Finnish companies appear to become more nonbureaucratic during the same three-year period.

These niche and product-differentiation strategies are understandable choices, given Finnish businesses' strengths and traditions. But the environment that they are facing is more and more dynamic and competitive. If Finnish companies merely stick to their current positions, the obvious risk is that low-cost competitors will catch up.

Table 3. Largest increases in Finnish executives' ratings of their own firms between 2009 and 2011

	Increase	2011	2010	2009	2011 Global
Does the company have a clear and well-communicated strategy?	0.58	3.91	3.56	3.33	3.50
How likely are higher input prices in the company's business environment in the next 12 months?	0.48	3.48	3.24	3.00	3.57
How likely are higher input prices in the company's business environment in the next 12 months?	0.43	3.42	3.18	2.99	3.48
How nonbureaucratic is the company?	0.37	3.08	2.92	2.69	2.91
How likely is the entry of new players into the company's business environment in the next 12 months?	0.37	3.17	2.75	2.80	2.92

Scale: 1 = significantly less than company's peers; 5 = significantly more than company's peers.

Table 4. Largest declines in Finnish executives' ratings of their own firms between 2009 and 2011

	Decline	2011	2010	2009	2011 Global
How likely is the emergence of substitute products/ services in the company's business environment in the next 12 months?	-0.48	2.65	2.89	3.13	2.98
How likely is industry consolidation in the company's business environment in the next 12 months?	-0.44	2.99	3.24	3.43	3.17
How fast is your company able to make decisions?	-0.39	3.32	3.48	3.71	3.16
How compelling is the company's value proposition for its customers on low prices?	-0.25	2.60	2.59	2.85	2.77
How quickly does the company sense and respond to changing market dynamics?	-0.21	3.13	3.24	3.33	3.31

Scale: 1 = significantly less than company's peers; 5 = significantly more than company's peers.

Largest declines between 2009 and 2011

Focusing on operational efficiency and existing strengths has had costs: between 2009 and 2011 Finnish companies have apparently become less responsive to markets and more internally focused. It is particularly troubling that Finnish executives gave their companies lower scores in 2011 than in 2009 for their ability to respond to changes in market dynamics (see Table 4). "We are too focused on what is important for ourselves and our production", said one executive, "sometimes forgetting what the market needs". A second executive elaborated: "In order to improve performance, we need to increase our responsiveness to change and our agility in resource allocation, while reducing complexity and rigidity in organizational hierarchy". A third executive lamented his company's "lack of agility, leading to falling behind customer expectations, slow speed of behavioral change and insufficient speed of innovation and renewal".

Alarmingly, the Finnish executives ranked their companies' decision-making speed lower in 2011 than in 2009. "We are too slow in reacting to changes",we said one executive. "We are playing too much on 'safe ground,' losing opportunities at the same time."

Consistently high ratings between 2009 and 2011

Given Finnish companies' confidence that they offer superior products and services, and a well-honed ability to meet their customers'

Table 5. Consistently high ratings assigned to their own firms by Finnish executives, 2009–2011

	2011	2010	2009	2011 Global
How transparent is the disclosure of the company?	3.99	3.99	3.93	4.18
How strong is this company's balance sheet?	3.80	4.26	3.87	3.92
How compelling is the company's value proposition for its customers on superior service?	3.92	4.00	3.87	3.82
How compelling is the company's value proposition for its customers on superior products?	4.02	3.81	3.73	3.72
How clear are the company's values/norms of conduct?	3.87	3.71	3.72	3.94

Note: Scores are defined as consistently high if they equaled or exceeded 3.7 each of the three consecutive years.
Scale: 1 = significantly less than company's peers; 5 = significantly more than company's peers.

expectations, it is no surprise that these scores remained consistently high between 2009 and 2011 and compared well to global averages (see Table 5). Going forward, however, we see potential trouble arising from too exclusive a focus on current customers at the expense of cultivating new ones. Also, market dynamics could spring unpleasant surprises in the form of disruptive new technologies and business models. Some Finnish executives are sensitive to these risks. "I am concerned that we will not be able to adapt to technological changes affecting all of our businesses", said one. Another characterized his company's greatest risks as "complacency; trusting traditional technologies, marketing and business culture too much; and not understanding the fundamental change in information flows and the values of the younger generation as employees, customers and regulators". Market disruptions can make even strong positions vulnerable to attack or obsolescence. As one executive pointed out, "Past success has created false beliefs that may prevent our necessary transformation".

Consistently low ratings between 2009 and 2011

It is troubling that Finnish executives simultaneously perceive the entry of new players and new products as insignificant threats and rank their firms' price competitiveness as low (see Table 6). Several executives did cite emerging competition from Chinese, Korean, Indian and other Asian players offering lower prices and in some cases pirated technology. "We are concerned by the invasion of Chinese competitors. They offer very low prices", said one. Another was more blunt: "Chinese copycats may start a price war". Many executives also cited lower production costs and greater cost competitiveness as necessary measures to improve performance. Breakthrough innovation was not a frequent answer: Finnish executives appear unwilling to introduce innovations that might cannibalize existing revenue and profit streams. To continue to command premium prices and stay ahead of cut-price imitators, however, companies must be capable of introducing innovations. The question is whether mere incremental innovation will be capable of producing the right kinds of services and products at a time when, as one executive put it, "growth may not occur in the area you chose or which you were constrained to choose".

Table 6. Consistently low ratings assigned to their own firms by Finnish executives, 2009–2011

	2011	2010	2009	2011 Global
How likely is the company to be the target of a merger or acquisition?	2.76	2.56	2.54	2.69
How compelling is the company's value proposition for its customers on low prices?	2.60	2.59	2.85	2.77
How willing is the company to introduce innovations that might cannibalize existing revenue and profit streams?	2.72	2.98	2.90	3.08
How likely is the company to diversify into new businesses?	2.86	2.86	2.89	3.13
How likely is the emergence of substitute products/services in the company's business environment in the next 12 months?	2.65	2.89	3.13	2.98

Note: Scores are defined as consistently high if they equaled or exceeded 3.7 each of the three consecutive years.
Scale: 1 = significantly less than company's peers; 5 = significantly more than company's peers.

Comparing Finnish executives' responses to those of their global counterparts tends to confirm our earlier observations.

Measures on which Finnish companies scored higher than global peers

Finnish companies outscored global averages on three measures (see Table 7). Two of these measures—a clear and well-communicated strategy and superior products—are in keeping with the prevailing niche strategies, likely to be effective in the short term. But the third item that exceeds global averages is the worrisome threat of new entrants into their markets. We question whether Finnish companies are sufficiently well-positioned for the long term, and whether they are doing enough to seize opportunities for growth, changing customers' needs, and to develop the competence to pursue them. In today's global marketplace, even companies that do not plan on aggressive expansion have to "run to stay still": their competitors are apt to have aggressive expansion plans that will potentially affect Finnish companies.

Measures on which Finnish companies scored lower than their global peers

Finnish companies' drive to grow is modest by global standards. Compared to the global averages, Finnish executives describe their companies as less likely to grow the core business, to expand geographically, to build related businesses or to diversify (see Table 8). It will be difficult for these companies to generate growth in the long term. The finding that Finnish companies are less likely than global peers to adopt innovations that might cannibalize existing revenue and profit streams jibes with this picture.

Competitors may well catch up with the less aggressive Finnish companies. And there is a larger risk for the overall Finnish economy: the increasing likelihood that Finnish companies will become takeover or merger targets. Focused and well-performing firms tend to be attractive targets for global buyers. Losing big companies to foreign competitors or conglomerates would be a blow to the Finnish economy.

Finnish companies also appear to have some leadership and performance-management issues. Performance standards at Finnish companies are clearly less demanding than global averages. Also, boards of directors are perceived as less strong than they are globally. Finland lacks a vibrant entrepreneurial culture and typically ranks fairly low in global rankings of entrepreneurial activity and corporate spinoffs (see, for instance, the OECD's Global Entrepreneurship Monitor). "We need broader and deeper leadership experience, including change-management and project-management skills and competences", said one executive. In the words of another, "We should be stronger in talent management and leadership development". Weak general-management develop-

Table 7. Measures on which Finnish firms scored higher than global peers, 2011

	2011	2010	2009	2011 Global
Does the company have a clear and well-communicated strategy?	3.91	3.56	3.33	3.50
How compelling is the company's value proposition for its customers on superior products?	4.02	3.81	3.73	3.72
How likely is the entry of new players into the company's business environment in the next 12 months?	3.17	2.75	2.80	2.92

Note: Difference is defined as 0.25 points or more.

Scale: 1 = significantly less than company's peers; 5 = significantly more than company's peers.

ment may be attributable to a system of higher education and a managerial culture that both promote specialization. "We are stuck with silo thinking", said one executive.

In general, highly specialized companies offer fewer opportunities for mid-career managerial job rotations than do diversified corporations like ABB. As a result, there is apt to be a growing shortage of general-manager talent at Finnish companies. Recent appointments of CEOs at prominent Finnish companies appear to confirm this observation: Nokia's new CEO is a Canadian, Kemira's a German and Wärtsilä's a Swede. Weak performance-management systems make it likely that the most promising Finnish executive talents do not receive merit-based promotions and that Finnish companies are thus missing opportunities to aggressively develop their own future CEOs. At some companies, promotions are still based on tenure rather than merit.

Observations on the comparison of Finnish companies to their global peers

The strengths of Finnish companies are considerable, and they point toward strong performance in the near future. But when we compare the lowest ratings that Finnish business leaders gave their firms in 2011 to global averages, the picture is mixed and even somewhat alarming.

Three shortcomings are disturbing. The first is Finnish companies' reluctance to take risks and to grow their businesses. Compared to their global peers, Finnish companies resist seeking out new markets and new customers, growing their core businesses or related businesses and diversifying into new businesses. They focus single-mindedly on their niches and apparently plan to stick to their current positions. "We need to be more willing take risks", said one executive who acknowledged the problem.

It is unsurprising that Finnish executives rated the likelihood that their firms will become takeover targets as higher in 2011 than in 2009. This trend has already begun playing out: in the past decade GE acquired Instrumentarium, Scottish & Newcastle acquired Hartwall, Telia acquired Sonera and Danske Bank acquired Sampo Bank. We do not urge growth for growth's sake, but it appears that many Finnish companies have adopted a "defender" mentality rather than thinking strategically about winning market share from their global competitors or seeking out new clients and new

Table 8. Measures on which Finnish firms scored lower than global peers, 2011

	2011	2010	2009	2011 Global
How likely is it that demand growth will exceed GDP growth in the company's business environment in the next 12 months?	3.32	3.69	3.02	3.76
How likely is the company to grow its core business?	3.50	3.62	3.53	3.92
How demanding are the company's performance standards?	3.29	3.40	3.28	3.70
How likely is the company to expand geographically?	3.17	3.04	3.15	3.55
How willing is the company to introduce innovations that might cannibalize existing revenue and profit streams?	2.72	2.98	2.90	3.08
How likely is the emergence of substitute products/services in the company's business environment in the next 12 months?	2.65	2.89	3.13	2.98
How likely is the company to diversify into new businesses?	2.86	2.86	2.89	3.13
How closely are pay and performance linked at the company?	3.04	3.06	2.94	3.31
How strong is the company's board of directors?	3.49	3.38	3.34	3.76
How likely is the company to build related businesses?	3.56	3.69	3.61	3.81

Note: Difference is defined as 0.25 points or more.

Scale: 1 = significantly less than company's peers; 5 = significantly more than company's peers.

markets. This stance is also troubling because capital markets assign higher valuations to companies that show evidence of readiness for strategic growth.

Finnish companies also appear averse to introducing innovations that might cannibalize their existing revenue and profit streams. Steve Jobs once remarked that he would prefer Apple to cannibalize its own products than for somebody else to do so. Finnish companies clearly don't think this way. "Our biggest threat is the lack of agility in renewing our service line to meet customers' expectations", one executive admitted. Another said, "Our company needs to be stronger at innovation. We need courage to move away from the existing business models that are not working well". Many acknowledged their companies' sluggish responses to changes in customer preferences. In the long term, this conservative attitude to risk taking is apt to hobble the growth of Finnish firms.

These two shortcomings both have to do with corporate capabilities and policies: skill at mergers and acquisitions and innovative abilities. Finnish executives are aware that their skills at identifying potential partners and alliances and at integrating mergers and acquisitions are limited. Few Finnish firms have a well-thought-out pipeline of potential partners and merger-and-acquisition prospects. As one executive put it, "We are weak in seizing opportunities and thinking outside of the box". Acquisitions are not for everyone, but thinking strategically about possible partners is a must in the twenty-first century.

The third cause for worry is the shortcomings that Finnish companies exhibit in governance and in the systems and processes that drive and motivate performance. Finnish executives assigned relatively low scores to the quality of their CEOs and boards and to the strength of their managerial talent bench. They also rated their firms low on linking pay to performance. These two assessments are linked: companies that develop talent well tend to have performance-oriented cultures that explicitly reward managers for fostering new talent.

Many respondents expressed worry about their companies' weak performance cultures and shallow talent bench. "We need better human-resource policies to ensure competence development over the coming challenging years", one said. Another elaborated: "We should be better at setting targets, linking measures to targets and giving feedback based on performance". Many concurred with the executive who said, "We have not been able to develop a truly high-performance culture in our company". It is surely telling that, when asked open-ended questions about their companies' strengths and weaknesses, Finnish managers concentrated on products and markets and barely mentioned performance and leadership. To build great companies, boards need to drive CEOs' performance, and CEOs need to make their managers accountable for performance.

* * *

We have noted that Finnish companies feel that they are now in strong positions, and that they are performing well. However, they should not become complacent. To continue to be successful in the future, to remain independent and to be able to build the next generation general management talent requires that Finnish companies become more proactive in seeking corporate renewal and being more rigorous in their performance management processes.

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CONCLUSIONS: What can be done to ensure long-term success

What can policy makers do?

Several issues that we have identified—an orientation toward specialization rather than a general-managerial skill set, a weak association between pay and performance and a cautious approach to risk taking—have their roots in Finland's culture, educational system and economic structure. Making change in any of these spheres thus calls for an active role on the part of government policy makers. The most obvious changes we see involve the educational system, promotion of innovation and tax policy.

1.

Promote cross-functional mindsets and broader skill bases at the universities. While the Finnish system of primary education is consistently ranked as one of the best (if not the best) in the world, Finnish institutions of higher education do not achieve particularly high rankings in international comparisons. The Finnish system of higher education encourages specialization. A student must choose an area of specialization very early on, and the system offers few incentives for changing one's concentration. A U.S.-style modular approach whereby one can earn an undergraduate degree in one field (such as architecture) and a graduate degree in a different field (such as business) would promote cross-functional competence. Finnish higher education also exhibits little correlation between pay and performance; thus it is unsurprising that the link is also weak at the corporate level. The pay/performance tradition could be strengthened by enforcing stricter grade and study week requirements at the university level.

2.

Make tax rates competitive for global talent. Global companies need global talent, but Finland's high upper-bracket income-tax rates discourage well-compensated global talent from relocating there. Policy makers also need to ensure that Finnish corporate tax policy is sufficiently competitive on a global basis not to dissuade companies from reporting income or locating activities in Finland.

3.

Encourage entrepreneurship and emphasize radical innovation via public funding initiatives. Finland typically fares poorly on international comparisons of entrepreneurial environments (The OECD Global Entrepreneurship Monitor, 2000 & 2007). Recent studies have criticized governmental efforts to promote innovation for overemphasizing incremental innovation and for favoring big companies over startups (A Fugitive Success, 2008). The authorities have already made some efforts to address this criticism by introducing e.g. the Vigo program, in which experienced entrepreneurs act as mentors to start-ups. However, the authorities must systematically follow up the effectiveness of the innovation program and flexibly modify it as needed. They should also ensure that it is not encumbered by the excessive bureaucracy typical of many previous programs.

CONCLUSIONS: What needs to be done to ensure long term success

What can Finnish companies do?

To remain successful over the long term, Finnish companies ought to consider several changes to their strategies and operations.

1.

Adopt ambitious and more strategic growth plans. This prescription calls for exploring business opportunities that could have radical effects on the existing core business, including diversification. To further maximize their capabilities, Finnish companies should also consider strategic alliances and acquisitions. Non-Finnish companies are displaying interest in acquiring Finnish firms. If Finnish companies merely sit tight in their existing niches, competitors from emerging markets could become even more dangerous rivals and eventually eat into Finnish companies' revenues and margins.

2.

Encourage boards to take a more active role in promoting strategic change. Many Finnish boards are content with the status quo. We urge boards to become more active and bolder about setting strategies.

3.

Make performance-management systems more rigorous and benchmark them to the best global companies. Performance and reward are not fully aligned at many Finnish companies. Managers do not know how to have difficult conversations with underperforming employees, and it is not common practice to manage poor performance out of a firm. Performance-management systems need to be improved, and managers need to be held accountable for managing performance.

4.

Offer more managerial rotation to develop the general-management skills of the next generation of CEOs. Many Finnish companies have high-quality leadership teams but a weak leadership bench. This point is linked to the previous point about performance management: one criterion on which managers should be judged is their ability to develop talent.

5.

Aim at ambitious transformational innovations alongside incremental improvements to current processes. Incremental improvements are important. But Finnish companies need to balance exploitation and exploration; a successful company needs both.

CONCLUSIONS: What needs to be done to ensure long term success

What can executives do?

Finnish executives who aspire to long and productive careers as general managers in a global economy should consider taking the following steps:

1.

Take time for self-reflection. Ask yourself: Have I occupied my current role and area of competence for too long? Have I actively sought new challenges? What new skills should I learn?

2.

Take ownership of your own development and your own career. If your company does not offer adequate opportunities to develop your leadership skills, seek them out yourself. Take advantage of executive programs and conferences.

3.

Think in terms of "compensation plus". When making your next career move, look for companies willing to actively develop you. Think broadly but selectively about your alternatives, and remember that immediate monetary compensation is only part of the picture. Think in terms of "compensation plus": opportunities to enhance your skills could translate into superior compensation and advancement later on.

4.

Make sure that you have the right mentors. Do not limit your mentors to senior people who can advise you on your career; also think in terms of reverse mentoring. Your best mentor could be a 25-year-old professional who can keep you in touch with the front lines. This mentoring idea can be also taken to a corporate level. Stora-Enso, for instance, has recently established a shadow management team, "Pathfinders," composed of twelve talented (and mostly young) individuals whose task is to rethink the company's operations and to challenge the CEO and the corporate management team.

5.

Build your own personal board of directors. Your personal board should consist of individuals from outside the firm willing to help you develop throughout your career. Think strategically about who to include on your board. Who are your personal directors now, and are they the right people?

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