More evidence for Finnish "Success-Driven Complacency" syndrome

Finnish and Global Executives' Assessments of Their Firms in 2013

By Boris Groysberg and Kalle Heikkinen 1/2014

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About the Survey

For the past five years, a group of C-level Finnish executives have responded to an annual survey that solicited 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 events consist primarily of case discussions and presentations on the latest thinking about leadership, innovation and talent management. The participants in our survey have been attendees at the NAG forum.

Each participant was asked to distribute the survey to a dozen of colleagues at his or her company; thus, in most cases, several executives from each firm completed the survey. The survey was conducted in 2009, 2010, 2011, 2012 and 2013. Its questions asked respondents to rank their companies against peers on leadership, innovation, organizational design, strategy, culture and human capital. The survey also asked six open-ended questions about the company's current strengths, weaknesses, threats and opportunities. We received 397 responses from 49 Finnish organizations: 126 in 2013, 47 in 2012, 55 in 2011, 86 in 2010 and 83 in 2009. This paper examined shifts in the participants' responses from 2012 to 2013, and also compared their responses to those of a set of global peers who responded to the same survey in 2013.

In 2013, an identical survey was also 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 resulting in 2797 responses from 234 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.

About Authors

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In early September, Finland mourned the sale of Nokia's mobile phone business to Microsoft in a $7 billion deal. With its humble beginnings as a paper mill in the small town of Nokia, the company had been a success story and a source of national pride for the country for over 150 years. Now, suffering financial and market losses driven by the indignities of modern-day machine wizardry, one of the country's few truly global brands has been lost. *"The emotional impact is of course significant. It is the end of an era, and as Finland's internal and external image has been bound up in Nokia, this will change the mental makeup of the country,"* said Alf Rehn, chair of management and organization at Åbo Akademi University.[1]

While this sale shocked Finland, it was not a big surprise to many observers, given the recent developments in the mobile phone business, and Nokia's struggles in responding to them. In our annual global study conducted over the past five years, we have gauged how executives rate their companies' capabilities. Our study shows that Finnish executives consistently rate themselves lower than their global peers on many dimensions. Even though many Finnish companies perform reasonably well, we speculate that perhaps the Finnish corporate sector is headed towards difficult times. Our findings lead us to hypothesize that Finnish firms suffer from "Success-Driven Complacency,"[2] a phenomenon that is cause for concern. Nokia's recent fall from grace is indeed an example of the malady. Nokia had a strong market leadership position in mobile phones, had a clear strategy, and executed it well. But as the markets changed, it failed to adjust and lead in innovation. *"Some people are crying about Nokia now…Why weren't they crying five or seven years ago when something still could have been done about it?"* asks Liisa Rysä, a former Nokia IT employee with ten years at the firm.[3]

Our 2013 survey of about 3,000 global executives, 126 of whom were Finnish, allows us the opportunity to better understand the profile of Finnish firms, and to explore whether, in the context of what happened to Nokia, the best Finnish firms in our survey face the same challenges as the Finnish industry in general.

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1 Wif Stenger, "As Microsoft buys Nokia, Finns mourn their claim to fame," The Guardian, September 6, 2013, http://www.theguardian.com/world/2013/sep/06/microsoft-nokia-finns-mourn-fame, accessed December 2013; http://www.theguardian.com/technology/2013/sep/04/nokia-finland-microsoft-startups; http://news.yahoo.com/insight-finland-reels-microsoft-doubles-down-nokia-phone-000219380.html

2 Boris Groysberg, Kalle Heikkinen, and Catherine Reilly, "Success-Driven Complacency? Finnish and Global Executives Assessments of their Firms 2009-2011," NAG White Paper, March 2012.

3 Wif Stenger, "As Microsoft buys Nokia, Finns mourn their claim to fame," The Guardian, September 6, 2013, http://www.theguardian.com/world/2013/sep/06/microsoft-nokia-finns-mourn-fame, accessed December 2013.

Overall findings

According to our study findings, the general profile of the Finnish industry in 2013 is bleak. Finnish executives' assessments of their companies' performance are weaker than those of their global peers on virtually every survey metric. As we obtained similar results in the previous cycles of our study, we suspect that at least some of the pessimism of Finnish executives, particularly in regard to their outlook for the economy or for their respective sectors, is driven by the negative business cycle in Finland.[4]

In comparing the top three Finnish firms with their global peers, we do find some bright notes as these firms outscore the global averages in 30 out of 47 measures. These high performing firms have clear strategies and superior products. They are great places to work and have strong balance sheets. However, we observe that the symptoms of "Success-Driven Complacency" also exist in these top three Finnish firms.

When compared with their global peers, the executives of the top three Finnish firms state that their companies score poorly in:

- Their ability to adjust to changes in market dynamics
- Leading in innovation
- Being strategic about growth
- Quality of top leadership across all levels

Our findings lead us to conclude that in order for Finnish firms to win in the global marketplace in the long run, they must become more innovative and people-oriented. Without losing their competitive edge or their strategic vision (external factors), they must take steps to foster a culture of innovation, to ensure that their organizations are adaptive, and to develop global caliber top leadership. The risk of not moving in this direction could result in other Nokia-type take-overs, as bigger and better-managed global companies stand eager to snatch Finnish firms for their portfolios.

4 Finnish GDP figures show a decline of 2.1% in the first quarter of 2013 compared to the previous year. At the same time exports have declined 4% and investments 5.5% from 2012 (Statistics Finland). The manufacturing, construction and consumer confidence indicators continued their decline in July relative to the previous month and stayed well below their long run average levels (Statistics Finland and Confederation of Finnish Industries).

Finnish vs. global executive assessments in 2013: General findings

Overall, in 2013, Finnish executives rate the status of their firms and their respective industries lower than their global counterparts do in 37 out of 47 measures. (They also rate themselves below the global average in 32 of the 37 measures in the separate talent management section). In fact, once more, the Finnish scores are among the lowest in the global sample.

In our 2013 survey, Finnish executives continue to be pessimistic about future prospects for the economy and about their respective sector's performance (Table 1). They rate their prospects for demand

Table 1. 2013 Ratings: Finnish firms vs. global firms

Survey item	Finnish average 2013	Global average 2013	Finland vs. Global difference %	Finnish top performers' average score 2013
How well does the company understand its competitors and their relative strengths and weaknesses?	3.0	3.7	-18.9%	3.0
How likely is the company to diversify into new businesses?	2.6	3.2	-18.8%	2.9
In the next 12 months how likely is demand growth greater than GDP growth in the company's business environment?	3.1	3.8	-18.4%	3.5
How likely is the company to expand geographically?	3.0	3.6	-16.7%	4.0
How compelling is the company's value proposition for its customers on low prices?	2.5	3.0	-16.7%	2.1
How good is the company at supporting experimentation?	2.9	3.4	-14.7%	3.3
The company's CEO?	3.6	4.2	-14.3%	4.2
How effective is the company at identifying and working with strategic partners?	3.0	3.5	-14.3%	3.1
The company's board of directors?	3.3	3.8	-13.2%	3.6
The company's top team?	3.4	3.9	-12.8%	3.5
How willing is the company to introduce innovations that might cannibalize existing revenue and profit streams?	2.8	3.2	-12.5%	3.2
How transparent is the disclosure of the company?	3.8	4.3	-11.6%	4.3
How quickly does the company sense and respond to changing market dynamics?	3.2	3.6	-11.1%	2.9
How compelling is the company's value proposition for its customers on niche strategy?	3.3	3.7	-10.8%	3.7
Relative to other sectors, how do you expect the company's sector to perform during the next 12 months	3.3	3.7	-10.8%	3.7
How likely is this company to be the target of a merger or acquisition?	2.5	2.8	-10.7%	2.6

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

growth relative to GDP to be 18.4% lower than their global peers rate their own relative demand growth prospects. As indicated, it is possible that the general downturn in the Finnish economy is an explanation for this finding, with negative sentiment extended to sector performance in several industries. Finnish executives estimate that their respective sector's performance outlook will be 10.8% weaker than estimates provided by their global peers.

We discuss our more significant findings below. These findings were similar to our study results in past years.

Not being able to adjust to changing market dynamics.

As in our previous surveys, Finnish senior executives indicate that their companies place less focus on adapting to changes in market dynamics than their global peers. We ask, "How quickly does the company sense and respond to changing market dynamics?" On average, the Finnish executives participating in our study score themselves 11.1% lower than their global peers. One executive explains that this problem has more to do with her company's internal workings and inertia than with her firm's inability to consider the competitive realities: *"The key threat facing our company is our internal lack of ability to make decisions and drive change in the face of [a] rapidly changing environment."* Another Finnish executive adds, *"We have become too pleased with our positions, actions and pipeline. We should step out from the comfort zone."*

Complicating matters further, Finnish firms seem also to ignore the position of their competition in the marketplace. On the measure, "How well does the company understand its competitors and their relative strengths and weaknesses?" Finnish executives score themselves 18.9% lower than their global counterparts' average score. This is the biggest gap between Finnish and global assessments of all measures in our study, a troubling find. This lack of concern and comprehension of their competition puts many Finnish firms at a major disadvantage.

Not focusing on innovation.

Finnish senior executives rate themselves unfavorably on the measure "How good is the company at supporting experimentation?" Weakness in this measure is especially disturbing as Finnish executives' score is even lower than it was last year and 14.7% lower than that of their global peers. It follows that Finnish executives also rate their firms low when we ask whether their firms are willing to introduce innovations that could cannibalize their core revenue streams. This score is very low, 2.8 out of 5.0, and 12.5% lower than the global firms' score. One executive in our survey states that problems in innovation have to do with his company's internal capabilities. *"The biggest threat for our company is whether we even have the ability for real innovations."* Another explains that a culture of innovation is missing in his company, and that risk taking and experimentation are not widely encouraged: *"Our traditional businesses are not easy to renew or to find new ways of thinking."* On this point, another Finnish executive paints a grim picture of his firm's culture when he describes his company as having a *"lack of innovation, lack of courage, and lack of laugh[s]."* These findings, while alarming, follow the traditional cultural behaviors of management in Finland, as they have been known to place more emphasis on operational efficiency and effectiveness. While this management philosophy could work short-term, it could inhibit the firm's ability to succeed long-term in a marketplace where design and R&D are key to its competitive edge.[5]

Lower willingness to for strategic growth.

Finland's export-driven economy consists of many companies that occupy strong positions in their global niches. Our past studies have shown that Finnish companies tend to focus more on operational excellence in their core businesses. Given this focus on the core business, it is not surprising that Finnish executives rate their willingness to diversify into new businesses with one of the lowest scores in the entire survey, a 2.6 out of 5.0. While their global peers are also cautious to experiment on risky diversification, they rate themselves a 3.2, i.e., they are 18.8% more opportunistic and more willing to take risks in pursuing diversified growth. Equally as constraining, Finnish executives state that they are hesitant to expand geographically. They score themselves only 3.0 on this metric, 16.7% lower than that of their global peers. While we agree that branching out into unrelated businesses is not the wisest strategy in many cases, many senior executives in our survey find that their companies have become too cautious. There are more opportunities for companies to grow their core businesses and build related businesses, as well as for careful expansion in some strategic geographies. One Finnish top executive comments that his company should be bolder in *"taking more risks on all levels."* Another asserts that a key problem in her company is its hesitancy in *"risk taking in difficult decisions, and accepting the uncertainties."*

Weaker top leadership.

Over the past five years, our surveys show a growing gap that seems to be emerging between the Finnish and global averages in the assessment of the strength of their CEO and firm leadership. Global executives generally rank the strength of their CEOs highly (an average score of 4.2 out of 5.0) whereas Finnish CEOs receive a rather mediocre rating of 3.6, 14.3% lower than their global peers. This trend continues with Finnish boards, rated at 3.3 versus 3.8 globally, and with the quality of the top teams, rated 3.4 versus 3.9 on a global scale. Finnish executives also receive only 3.8 for the transparency of their company disclosure, compared with a 4.3 score for their global peers. Finnish executives admit that they need to be stronger in *"building leaders for the future growth."* And one executive adds that they must focus on *"leadership, management, putting ideas into practice."* Still another senior executive agrees, *"[We need] top talent in all key positions."*

5 http://worldbusinessculture.com/Finnish-Management-Style.html

Best performing Finnish companies: A closer look

In an effort to extend our understanding of the performance of Finnish firms, we examined the three highest scoring Finnish firms, representing the top 10% of our sample based on executives' ratings. The three highest scoring Finnish firms in our survey operate in global markets and in global niches. They offer premium products and services from which they hope to extract premium prices. They are publicly listed companies with little or no government ownership. They are also companies with high revenue growth.

Strengths.

These leading Finnish firms are rated higher than the global averages in 30 of the 47 measures we used, most notably in the following four measures (Table 2):

- Having a clear strategy
- Superior products
- Strong value proposition to their employees
- Strong balance sheet

The executives of the top performing Finnish firms score 19.4% higher than their global counterparts for having a clear and well communicated strategy. One executive offers a typical characterization, "Our strategy is clear and easy to understand." Equally as important, the executives agree on strong management support and commitment to the firms' strategy to grow. Demonstrating this attitude, we observe that the top three Finnish firms reflect a marked willingness to grow geographically. The executives in these companies score this measure at 4.0 out of 5.0, higher than the global average of 3.6, and significantly higher than the total Finnish average of 3.0.

In our previous studies, we observed that many Finnish firms are well positioned in their global niches, where they compete primarily with superior products that command premium prices. It bears to reason that Finland's top performing firms also have strong positions in their respective global industries, and are providing a compelling value proposition for their customers on superior products. The executives of these Finnish firms score 12.8% higher in this area than the average of their global peers.

Not surprisingly, these top performing Finnish companies also appear to be attractive places to work for their employees. We ask, "How compelling is this company's value proposition for its employees?" These firms get scores of 4.0 out of 5 (a difference of +14.3% versus the global average).

Finally, the executives from these Finnish firms indicate that their firms have strong balance sheets receiving a score of 4.5, which is the highest single Finnish score in this survey across all measures (a difference of +15.4% versus the global sample).

Weaknesses.

Despite their overall strength, even the top three Finnish firms share some of the symptoms of the "Success-Driven Complacency" that we have discussed. One of these symptoms is an inward focus. On the measure, "How quickly does the company sense and respond to changing market dynamics?" the best three Finnish firms in our survey score not only lower than the global average, but also lower than the overall Finnish average. While the global executives score themselves at an average of 3.6, Finnish executives average 3.2, with the top Finnish firms lagging behind at 2.9. Additionally, the top

Table 2. 2013 Ratings: Top 3 Finnish companies vs. global averages.

Survey item	Finnish top performers' average score 2013	Global average 2013	Difference Finnish top vs. global average, %
How strong is this company's balance sheet?	4.5	3.9	15.4%
How compelling is the company's value proposition for its customers on superior products?	4.4	3.9	12.8%
How transparent is the disclosure of the company?	4.3	4.3	0.0%
Does the company have a clear and well communicated strategy?	4.3	3.6	19.4%
How likely is the company to grow its core business?	4.2	4.0	5.0%
The company's CEO?	4.2	4.2	0.0%
How consistently does the company meet its customers' expectations?	4.1	3.9	5.1%
How clear are the company's values/norms of conduct?	4.0	3.9	2.6%
How compelling is this company's value proposition for its employees?	4.0	3.5	14.3%
How likely is the company to expand geographically?	4.0	3.6	11.1%

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

three Finnish firms score at the same level, 3.0, on the measure of how well their firm understands its competitors' weaknesses. This score is well below the global average of 3.7. (See Table 1).

When asked, "How willing is the company to introduce innovations that might cannibalize existing revenue and profit streams?" the top three Finnish firms score similar to their global peers with a score of 3.2, and slightly lower (at 3.3) than their global peers (at 3.4) on the measure of "How good is the company at supporting experimentation?" Thus, our finding is somewhat worrisome, as it indicates that perhaps these high performing Finnish firms are not as well positioned for future success. (See Table 1).

Another troubling finding of our study regards the best Finnish firms' top executives and leaders. These firms' CEO ratings (4.2) are in line with the global averages. (See Table 2). And boards at the highest performing Finnish firms receive lower ratings than their global peers, with scores of 3.6 and 3.8 respectively. (See Table 1). Finally, the top teams in the best Finnish firms score lower than the global average, with a score of 3.5 versus 3.9.

In aggregate, these ratings might indicate that the top performing Finnish firms have great strategies and great execution. They perform well, but they need to improve on innovation and talent and to get faster in adjusting to the changing dynamics of the global marketplace.

Conclusions

"Our key challenge is just to get the product out of the door. We have no time for thinking outside of the box."
—Senior executive, large Finnish listed firm

"Our strategy is clear. Our top three priorities are: execute, execute, and execute."
—Former Chief Executive Officer of a major Finnish firm, now a Board Member

The aforementioned quotes from senior Finnish executives from our survey indicate both the strengths and the weaknesses we observe in Finnish companies. In the 21st century, a company needs to excel on a number of dimensions from organizational hardware such a clear strategy, great execution, and simple and easy to navigate structures to organizational software such as high performing culture, superior talent, and innovation capabilities. At this time, many Finnish companies have a great strategy and great execution. Unfortunately, there needs to be more than that. Finnish firms need to do better in building high performing cultures and adaptive organizational structures. Additionally, these firms also need to invest in innovation capabilities and talent. Although this will be a difficult battle, it is clear that just "*getting products out of the door and not thinking outside the box,*" and *"executing, executing, executing"* will not be enough to succeed in the long term.

The first step in this process is to recognize the need to change. Let us return to the case of Nokia that illustrates this well. For over a decade, Nokia outperformed others due to its market leadership in handsets that allowed for economies of scale throughout its business, from product development to logistics. However, as the former Nokia CEO Olli-Pekka Kallasvuo revealed, Nokia's fall was a result of the company leaders becoming complacent. *"In successful companies it's easy for things to start to feel comfortable…It reduces the appetite for risk-taking and innovation. It's like this in every successful large company, and it is difficult to fight against it,"* said Kallasvuo.[6] CEO Tim Cook of Apple commented, *"I think [Nokia] is a reminder to everyone in the business that you have to keep innovating and that to not innovate is to die."*[7] It seems the syndrome of complacency led to Nokia's downfall, as they either missed or misjudged the shifts in the markets.

To win in the global markets in the long term, firms must be able to lead in innovation and adapt to changes in the markets. Finnish companies should spring into action, promote self-analysis and devise new approaches to their markets that foster innovation and faster adaptation to change while at the same time investing in their people and high performance cultures.

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6 "Ex-Nokia boss: Company became 'complacent'," Yle UUTISET, September 7, 2013, http://yle.fi/uutiset/ex-nokia_boss_company_became_complacent/6819661, accessed December 2013

7 Sam Grobart, "Apple Chiefs Discuss Strategy, Market Share—and the New iPhones," Bloomberg BusinessWeek, September 19, 2013, http://www.businessweek.com/printer/articles/153374-apple-chiefs-discuss-strategy-market-share-and-the-new-iphones, December September 2013.