

New Corporate Strategies
A Comparative Social Cybernetics Analysis of Nokia and
British Telecom

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ABSTRACT

In the theoretical discussions on various new global strategies, cultural, networked and innovative ones are complementing or substituting the traditional strategies often focusing on best practice, differentiation, core businesses, economics of scale ...

In the traditional methodologies for doing strategic analysis the head problem was to make a constructive alignment between resources, businesses and organization, thereby gaining competitive advantage, control and coordination for the corporation in question.

By analyzing and comparing the character of management processes used by two different well known global players within the teleindustry, British Telecom and Nokia, the article tries to find out, if other methodological points of departure could be more convenient and constructive.

In conclusion, social cybernetics analysis, with its focus on causes for entropy, self-sustaining and reinforcing mental models in use, and systems dynamics ... nowadays is often a better guide in the global oriented strategic work than more traditional structural oriented analyses.

Key words: Corporate Strategy, Social Cybernetics Analysis, Teleindustry

Introduction

The traditional methodology for making strategic analysis is outlined below after Cynthia Montgomery, Montgomery (1998), see figure 1.

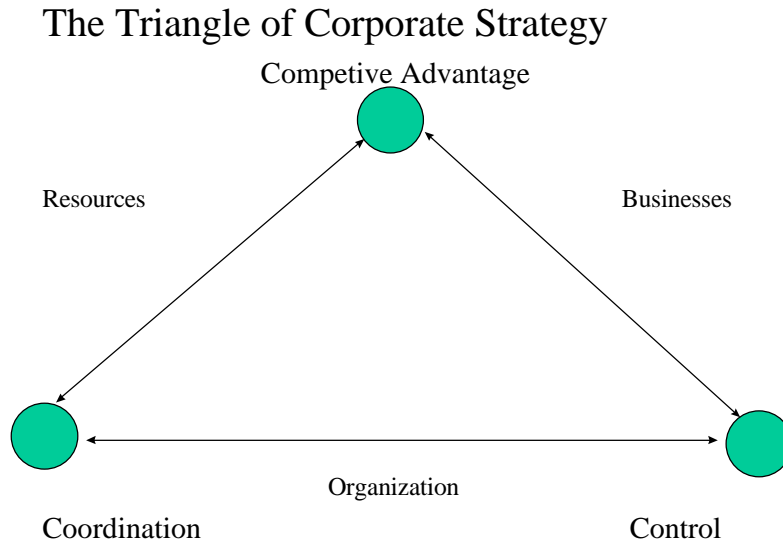


Figure 1. The triangle of corporate strategy after Montgomery (1998).

The main idea is that it is not enough to discuss which businesses you are in, or which resources you possess, or just trying to coordinate your activities when you are making a strategic analysis. Naturally, you have to have all three different kinds of dimensions in mind. However, you can not accomplish a comprehensive analysis only by trying to look after competitive advantages, or by trying to maintain control, or by trying to coordinate the activities in your organization.

You have to *realign* all three different kinds of steering instruments to each other for gaining a strong and lasting competitive position. So, if you start looking after the competitive advantages of your businesses, and you hereby naturally focus on market segmentations, you should soon also take into consideration available resources and what your organization is geared to handle. This is just what Nokia has done in the last decade with its strong brands on the market for mobile phones, see the Economist article on Nokia.

After the same line of reasoning, if you start focusing on your resources at hand, and which kind of coordination and competitive advantage they immediately allow you to obtain, you should also have in mind the importance of the control function. Here we have the history of British Telecom management processes with its focus in recent years on how to make a cash cow out of the fixed-line business, see the Economist article on British Telecom and Vodafone.

Finally, if you start with your organizational capabilities and drivers alignment with existing businesses, thereby focusing on control, you should also have coordination and competitive advantages in mind....Vodafone with its growth by acquisition..

In strategic analysis the main thing is not only for example to promote a structural-conduct-performance analysis a la Michael Porter, Porter (1991), or a resource based analysis after Barney`s Resource Based models, see Barney (1986), but to make the right realignment of resources, businesses and the organization. A process which must go on all the time, in a way continuously. This has been the case for all three examples: BT, Nokia and Vodafone.

However, in practice you often only change your strategy when you see new profitable trends are on the horizon, new competitors are penetrating into your market space, when you have new resources at handIn such a more stable business context the realignment model functions well, getting you to focus at the systems structural nature of your corporation.

In the 1970th many multinational corporations gained competitive ability by diversification, in the 1980th by differentiation and focusing, in the 1990 by getting back to their core businesses. Every decade have its most popular way of doing things, now diversification and differentiation are again becoming hot labels, see Agrawal et.al. (2001).

One way to handle the more and more vibrant and turbulent international and global economy, often creating a growing need for faster and larger realignment of the corporations businesses, resources and organization, is to propose a still more all encompassing structural oriented model. This has been done by Dave Ulrich, Jack Zenger and Norm Smallwood, see Ulrich et.al. (1999), Results Based Leadership. The main idea here is to realign all different kinds of attributes existing in a corporation so that they give rise to desired results, which are characterized by being balanced, strategic, lasting and selfless p.32.

This is the *good governance* way of doing things, taking care of all different groups of interest in a balanced, and at the same time market oriented way. See also Batten and Waller (2001) for a more European oriented view. It has been immensely popular, especially in Anglo-Saxon countries because it explicitly tries to balance between investors, customers and employees, in a way a combination of the traditional strategic

schools of thought, Porter, Barney, mentioned above, ... and the human resource management theories: Argyris (1990), Schein (1995), Senge (1994)....

Let's now run through and compare the cases of Nokia and British Telecom, hereafter BT, more in detail on a *social cybernetic methodology form*, looking after *missing dynamic links* in the structural good governance concept. In a way, we are looking after, how different kinds of catalysts, often *human agents*, can bring sustainability to the system, see David Lane in Lane (2002).

Social Cybernetics Analysis, Characteristics

Social cybernetic methodology can be described by figure 2 below, where interaction among contexts and dynamics give rise or fall to competitive ability:

Cybernetic Development

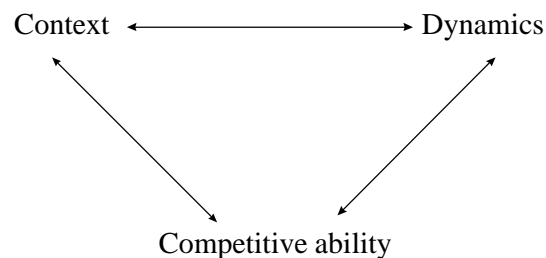


Figure 2. Cybernetic development after Rée (2000).

For BT the important *context* could be different product areas and groupings: fixed line business, wireless products, corporate data and broadband product and services. For Nokia the main product groupings are mobile phones and handsets, and components and services for the mobile infrastructure.

The history of Nokia and BT are totally different. In the beginning of the 1990ties BT were the largest European telephone company and telesystem operator. In a way, everything has since gone wrong for BT. It was too late for wireless telephony, and too late also for internet services and broadband activities when those product areas took off in the late nineties. BT had the chance, it was privatized as one of the first British public sector companies in the early nineties, but anyway it kept on to the traditional coppersystem services delivered from an existing fixed-line infrastructure. - Another British telephone operator, Vodafone, in the late eighties a very small company, in the meantime has risen to be the largest teleoperator in Europe, and has now a market value by and large ten times BT`s.

Nokia is also a newcomer, but in comparison with Vodafone, which has largely grown by acquisition, Nokia has almost created its own market for mobile phones as a mass market brand. Nokia has a long Finnish history. It started out as a diversified business, selling a lot of different products from pulp paper to television sets when it in the early eighties got into the telephone materials producing business. In the nineties, Nokia has become decisively the largest Finnish business with a significant contribution to Finnish GNP, and totally dominating the HEXindex, even after the techbubbl began to fall down.

Comparing the two cases, *business dynamics* has been with Nokia and against BT. There is a tendency in the press, see The Economist (2000 October), to say that the topmanagement team, and especially the CEO in Nokia, has been "very smart and effective", whereas in British Telecom they have been "dinosaur like" in their leadership style, and anyway all too slow in handling the BT crisis.

Looking deeper into business dynamics on figure 1 from a *social cybernetics* point of view, we can distinguish between three different *generic* processes of management, *human agents mental models*, containing and catching turbulences around and inside a corporation, see figure 3 below

Processes of Management

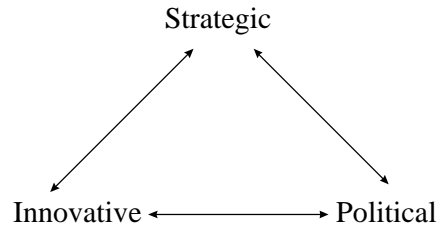


Figure 3. Processes of management after Rée (2000).

Generic *strategic processes* is about benchmarking and making results, generic *political processes* is about being a credible business, and generic *innovative processes* is about doing things right in a new and better way. See Rée (2000). In a way the different types of business dynamics processes can be seen as system dynamics when they play into the different specific kinds of contexts: markets, industries, countries... Results (profits), credibility, innovative possibilities for example are all flow variables, whereas context descriptions often take place in stock variables: Inventory levels, levels of goodwill, stocks of new patents ...

Especially, Nokia has a strong focus on strategic, marketing and political processes, making a credible smart brand in the mobile phone market, taking the lead in mass commoditization developments. At the same time, they are getting ready for 3G and GPRS technological developments. - BT always tries to be up to date and a little ahead with technological developments. They have used a lot of money financing 3G licences and capital expenditures on the Internet Protocol and broadband developments, at the same time working hard for maintaining and sustaining their monopoly in fixed line businesses with squeezed declining margins.

Returning to figure 2, the result has been different compositions of *competitive ability* for the two global players: Nokia tries to hold on to its differentiation strategy by a kind of reversed commoditization, using dual band devices and backward compatibility as differentiation strongholds. BT wants to get out of its infrastructure monopoly lock in by adding a lot of new wireless, broadband and internet services to its products line.

However, compared to Nokia there is no real differentiation and focus, only spin-inns of new, but always on the market already existing, services and products, and spin-offs of old ones.

In traditional global strategic *balancing* terms: for a realignment of resources, businesses and organization, Nokia has to *diversify*, and BT has to *focus*.

The *strategic catalysts and possibilities, human agents social actions*, for Nokia could be: Lower its single brand vulnerability by a strategic alliance with an American company, operator as well as producer, or by a merger with a, for the time being, cheap Japanese multinational. In Japan, they have built, and put on an operational basis, a European compatible 3G network. - Or Nokia can retreat to its old multibrand diversification strategy, becoming a cash cow as BT.

And for BT: Focus while reorganizing. They have already done so, by letting the fixed-line business split into retail (discounted packages) and wholesale (sale of netcapacity to competitors), by establishing BT-wireless and Ignite, BT broadband IP businesses and BTopenworld, all their internet services. - Or, they can really try to focus on either the wires alone, or only on customers, getting rid of the fixed-lines, serving customers with different kinds of new packages and hot services. BT is then retreating to its old differentiation focus strategy for becoming a brand new global player. - In a way, the old Nokia mass marketing branding strategy.

Corporate Good Governance, the contribution

As mentioned above one of the most comprehensive and well praised good governance approaches is “Result Based Leadership” (org.cit. p.3). Desired results reaches high on four dimensions:

First they are *balanced*:

Both Nokia and BT have tried to live up to this intention. Nokia having a very fine balance between investor markets need for equity growth and employees need for development possibilities. Nokia has a typical very non-hierarchical type of organizational structuring, for a long time their stocks where on an exponential rate of growth, and in the downturn Nokia is still not hit so much as other telephone equipment producers, as Scandinavian competitor, Eriksson, for example.

In their own way BT's results are also balanced: In the Anglo-Saxon tradition investors and financial markets evaluations have been very much in focus, BT continuously pushing new consumer services oriented products into both corporate and private markets.

Second they are *strategic*:

having clear strategic intents. Nokia wants to keep on with their massmarket mobile telephone well-known brands by establishing new kinds of barriers around them. For example, they developed another product area, infrastructure components, for launching a whole supply line of services products.

BT has also a clear strategic intent. As Nokia, it is also getting into new consumer services in wireless, broadband and Internet communications, and at the same time ride on the copper infrastructure cash cow, as long as possible.

Third they are *lasting*:

As seen from the just past history, they are maybe too lasting. BT still press margins for other operators using the fixed-line infrastructure, and they are still trying to realize not real spin-offs for their service product groupings.

Nokia are going on trying to brand their mobile phones after new customer trends and tendencies. It looks as if they will succeed, even if there are significant risks in that kind of strategy.

Finally they are also *selfless*, in the sense that the consumer services focusing of both companies are seen as giving rise to constructive synergy between the consumer product groupings and other products and markets in the respective companies.

To *sum up*. Both Nokia and BT have for a long time been making *desired results after the good governance concepts*. However, it is also clear that they both easily could run into serious problems in volatile, especially private teleconsumer markets. Another well-known old British and American teleoperator, Cable and Wireless, have learned the lesson from spreading out too many private consumer products and services, and are now having a very strong focus on IPservices for industrialized, especially European, corporate markets.

Social Cybernetic Analysis, the contribution.

Pushing forward the social cybernetic analysis, we can look into specifics of the *generic strategic management process* from figure 3 as illustrated on figure 4, see Rée (2000).

MAIN FOCUS Results
 DIMENSIONS
 Results
 Explainable ideas
 Catch/see changing attitudes

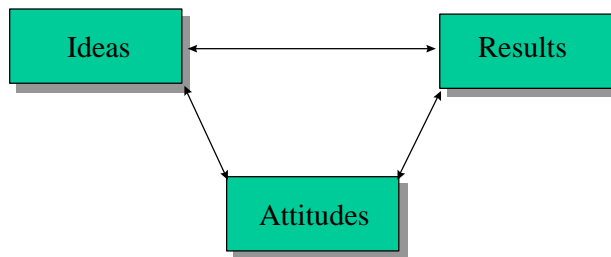


Figure 4. Generic strategic management processes.

As mentioned above, in processes of strategy *business results*, in its many different forms, benchmarking, profits, margins, are in focus. The social cybernetic point of view is that realized strategic results, often through the other dimensions in the strategic management process, ideas and attitudes, have *spillovers*, positive or negative, to political and innovative processes of management for the corporation seen as a whole, see figure 3.

So, when BT is focusing on results for their cash cow, the fixed-line business, maybe they should try to be a little more idea-generating and proactive instead of overtly defensive. Maybe, they could be helped by innovative and political processes, gaining credibility for being, not a follower and copying company, but a leader and first comer in consumer service markets. *The advice for BT would be first to look into this credibility problem focusing on a certain consumer segment, then to let the innovative process follow in the wake.* Today there is all too much uncoordinated and unconnected innovation.

Hereby, BT might find the “right” part and the “right” time for a spin-off.

For Nokia the situation is different. They have their strengths in benchmarking and making very well-known credible brands. What they lack are really technical innovative capability to sustain and make leverage on their new branding ideas. *So, the advice for Nokia should be first to strengthen the innovative process of management, what they already are doing integrating a venture type of organization in the existing organizational hierarchy. And later on, in the wake of this process, precipitate candidates for being the new Nokia brands.*

Social cybernetic generic strategic analysis take as its starting point, and make leverage on, existing human mental models in use, playing on their often *built in* selfsustaining and reinforcing dimensions thereby realizing a constructive flow and sequence of different processes of management over time. For further examples see Rée (2000).

Conclusion

By focusing on systems dynamics of different mental models embedded in different kinds of head management processes, and especially on their interplay, the social cybernetic methodology can have an advantage compared to good governance models, often only looking into different structural forms of behavior and organization. This is in line with the reasoning in “Creative Destruction” by Richard Foster and Sarah Kapland, see Foster and Kapland (2001)

In summary, a proposed *social cybernetics methodology* can run as follows with feedback loops between all phases:

Contexts: Countries, industries, products.

Dynamics: Different types of generic management processes and human agents mental models in use with different focus: innovative, strategic, political...

Competitive ability: If possible, with the help of system dynamics models illustrate: types of synergy, good governance concepts: balanced outcomes, desired results... (Structuring the interaction of stocks and flows, also of social management variables. In short, try to build a generic social system dynamics model illustrating the interplay between contexts and dynamics for the market, industry, country... in question.)

Human agents actions, catalysts: Strategic possibilities, impossibilities...reflexive monitoring.

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