

Nokia's next chapter

The Finnish giant has exited mobile phones and doubled down on its networking business. Chairman Risto Siilasmaa explains why—and how.

The only way a corporation endures for a century or more, according to former IBM CEO Lou Gerstner in *McKinsey Quarterly*, is by changing 4, 5, or even 25 times over those 100 years.¹ Otherwise, he says, “they wouldn’t have survived.” By those measures, Finland’s Nokia is a paragon of corporate renewal. Over its 151-year existence, the company—which took its name from a lumber mill built on the banks of the Nokianvirta River, in southern Finland; later morphed into the power-transmission and phone-cable businesses; and then most famously moved into, and for more than a decade ruled, the entirely new market of mobile telephony—has made the ability to change a core competency. After surviving a near-death experience and abandoning phones, this corporate phoenix has reemerged as one of the world’s largest telecom network service providers. Recently, at its headquarters in Espoo, Finland, Risto Siilasmaa, Nokia’s cerebral chairman, escorted a visitor down a wall showcasing historical memorabilia from incarnations past—such as a pair of rubber boots, a power cable, the brick-like Cityman mobile phone from 1987, and Nokia’s beloved model 5110—and, turning a corner, paused to wave expansively at a corridor dominated on one side by a blank, 100-foot whiteboard: “And there,” he said with a wry smile, “is our future.”

Siilasmaa himself is a big reason Nokia even has a future. As one of Finland’s most successful high-tech entrepreneurs (he was briefly a “dollar billionaire”

¹ See “Lou Gerstner on corporate reinvention and values,” *McKinsey Quarterly*, September 2014, McKinsey.com.

on paper during the turn-of-the-millennium market boom), he joined the board in 2008 just as the emergence of Apple's smartphone on the high end and a bunch of aggressive cheaper competitors on the low end were beginning to batter Nokia's market leadership. Things went south with stunning speed, and by 2012, the company was hemorrhaging money. Named chairman in May of that year, Siilasmaa quickly found himself playing a complex corporate game of three-dimensional M&A chess, even as the company battled to survive. In quick order, he and his board bought back half of NSN (Nokia Siemens Networks), a networking joint venture that had been spun off at the height of Nokia's mobile dominance, negotiated the sale of its phone business to Microsoft, and then wheeled to double down on networking by purchasing rival networking giant Alcatel-Lucent.

Amid the fog of uncertainty, Siilasmaa kept the enterprise focused by building trust among the board and top management team, by treating anxious employees with transparency and fairness, and by insisting on using facts and analysis to drive decision making. No nonoil company may have ever claimed more of a single country's GDP, tax base, and collective esprit than Nokia at its peak did in Finland. So amid the national emotional outpouring its decline engendered, it helped to have a quietly confident rationalist at the helm.

Recently, Siilasmaa sat down with McKinsey Publishing's Rik Kirkland to reflect on his own remarkable journey, as well as his company's. In these edited excerpts, he recalls his education as an entrepreneur, his love-hate relationship as a sometime supplier to Nokia, and the battlefield lessons he learned about how to forge consensus and build trust—and sketches out his vision of how the new Nokia intends to fill in the blank white wall of its future.

The Quarterly: *Tell us about how you became interested in tech and being an entrepreneur.*

Risto Siilasmaa: I learned programming on a Commodore 64, actually a VIC-20 before that, when I was about 12 years old. My parents were not wealthy, so I had to earn the money to buy my own. I started working, doing all sorts of odd jobs, and began actively writing reviews and articles for Finnish computer magazines. When I was 15 to 16, I started helping some Finnish companies with their computer problems and later wrote a book on computer security.

I then attended the Helsinki University of Technology, where I didn't study computer science, because I was under the false impression that I already knew enough about that topic. So I studied economics, international law, business strategy, and leadership—a wide and nonscientific curriculum. As

part of an exercise in one course, the university had us fill in the papers required to start a company. But my partner and I used those documents to actually start a company. Shortly after, he left to do his thesis, and I was left in charge. Customers were happy, so I started hiring. And one thing led to another.

The Quarterly: *This was F-Secure, a cybersecurity company, correct?*

Risto Siilasmaa: Yes. F-Secure launched in 1988. As we continued to grow, suddenly we had profits and were able to start hiring developers. So we shifted from services and consulting training to become a product company, which had been my dream since the early days of learning to program a Commodore 64. I had hoped to create the best text-based *Dungeons and Dragons* computer game of all time and sell that globally. For me, it was a fascinating thing to think that somebody on the other side of the world would use something I had created. However, the game didn't work out.

The Quarterly: *So the Angry Birds path to success didn't end up being in your future.*

Risto Siilasmaa: No, but it was good fun. However, with the path we chose, F-Secure grew at an average of 80 percent annually for the first 12 years and was always profitable. We went public at the end of 1999, and the stock took off. As the founder and the largest shareholder of the company during the tech bubble, I soon saw my face on the TV news in Finland, sometimes several times a week. People started recognizing me when I was walking down the street, even though I was not giving interviews. The media were just showing my face, speculating on TV about the company's success, rising share price, and how much I was worth.

The Quarterly: *How did that kind of celebrity affect you?*

Risto Siilasmaa: The learning for me was that what the media says about you has absolutely no bearing on reality, especially when they're only saying positive things. You're not any better. The company's not any better. It's just that there's this huge hype. And you need to be aware of how that hype can affect you, for example, by potentially pushing you to spend much more than what makes sense and to think too much about the next month or quarter versus the next 25 years.

One thing we did, which is relatively unusual, is to say publicly, back in 2000, that we felt our share price was overrated and too high. Typically, the leadership of a publicly listed company doesn't do that. Two months after we did, our share price had tripled. It was absolutely absurd. But in the end, what made me so happy is that we had priced our IPO at the right level, so that

after the bubble burst, my investors still made money. Even after the bubble had completely deflated, I could look any investor in the eyes and say, “If you invested in the IPO, then you’ve still made money.” That was important for me personally as well. When people ask me, “How did it feel to lose a billion dollars?” I can honestly say I never felt I lost anything, because it was only paper money. After the bubble, I still had the same amount of shares that I had before the bubble.

The Quarterly: In the meantime, Nokia’s own star was burning brighter and brighter as well. How did that shape your course at F-Secure?

Risto Siilasmaa: When I started my company, Finland was not a high-tech country. In fact, our reputation was quite low in that regard. We didn’t really have international companies either. So when F-Secure started internationalizing and went to Silicon Valley in 1992, and Japan and other countries a few years later, I always tried to pretend that we were an American company. We still had printed corporate brochures back then, and I always put the US office address first on the list so that people would mistakenly think that we were an American company. Finland showed up somewhere on down in the list.

RISTO SIILASMAA



Vital statistics

Born April 17, 1966,
in Finland

Education

Holds an MS in
engineering from
Helsinki University
of Technology

Career highlights

Nokia
(2012–present)
Chairman of the board
of directors

(2008–12)
Member of the board
of directors

F-Secure

(2006–present)
Chairman of the board
of directors

(1988–2006)
Founder, president,
and CEO

Fast facts

Chairman of the board of
the Federation of Finnish
Technology Industries
and a board member
of the Confederation of
Finnish Industries

Earned the Nordic
Chairman of the Year
award (2009) and the
Innovation Luminary
Award (2015)

But with Nokia's increasing success, I gained the confidence to start giving a real Finnish flavor to the F-Secure story. Because, for security, Finland is a great country of origin. We weren't on any side in the Cold War. We are impartial, objective, law abiding, and hardworking. There's almost no corruption in Finland. In many ways, we are the ideal home for a security company. But it was the rise of Nokia that encouraged me to open that door. Its success gave Finns a new pride in being Finnish.

Eventually, we became a supplier to Nokia, providing security software for its proprietary Symbian operating system. We started shipping an antivirus product for Symbian in 2001. But to be honest, when that happened, I discovered it was very difficult to work with Nokia. I loved Nokia, but I hated the way Nokia treated its partners. Besides the arrogance that can come with great success, the company had an attitude that it didn't need to please its partners. It treated them as a purely subcontracting, supplier relationship, which is not the way to act when an innovative product like software is part of your supply chain.

The Quarterly: *So how did you move from supplier to board member?*

Risto Siilasmaa: In 2006, I turned 40. After 18 years in the same role as CEO of F-Secure, I felt that I was not learning anything anymore. Instead, I decided to radically transform my life. So I stepped down, became the chairman, and started doing a lot of other things—such as becoming the chairman of Elisa, the biggest, most successful domestic teleoperator in Finland. In 2008, I was asked to join the Nokia board.

At the time, they were looking to me because of my technology and business experience, and because I had given them strong feedback about the shortcomings in how they treated their ecosystem of suppliers. But there was then no sense of any impending crisis. In fact, 2007 had been the best year for Nokia ever. But in hindsight, we know that the turn had begun some years before as far as competitiveness, the right technology architectures, and the way to organize the company.

The Quarterly: *Any reflections on how executives can foresee the kind of market shock that Nokia subsequently endured?*

Risto Siilasmaa: Very successful companies need to be extremely focused on forward-looking indicators. I often jokingly say that in business we all drive cars where the whole windshield is a rearview mirror. And we have only a small opening somewhere in that mirror surface through which we can look forward. That's because, in general, we are so focused on the historical

numbers that we have little ability to look forward. None of our neighbors, in their right mind, would want to drive such a car, but we run huge businesses with exactly that approach. It doesn't make any sense. When everything you see looking through this giant rearview mirror is great, how can you begin to understand that, actually, your fundamental competitiveness has dramatically decreased over the last years?

The Quarterly: *So, blinded by the mirror, Nokia missed the abrupt turn in the market and was forced to begin taking a number of radical steps to try to turn the tide. This included bringing in Microsoft's Stephen Elop as its first non-Finnish CEO in September 2010, and later deciding to stop investing in its own proprietary software and instead sell Microsoft's Lumia phones as its exclusive high-end option. Describe the situation at the time you were formally named chairman in May 2012.*

Risto Siilasmaa: To me, Jim Collins's book *How the Mighty Fall*² describes quite well what had happened to Nokia. When I became chairman, I think we were in the fourth stage of Collins's five stages. The fourth stage is sort of the Hail Mary stage, where you need to do something dramatic or you go into the fifth stage, which is death or irrelevance—with irrelevance obviously being worse than death. That spring had been pretty awful for us. We issued two profit warnings over two quarters. Our operating loss was about €2 billion during the first half. During the second quarter alone, our core revenues in handsets declined by 26 percent from the previous year. We were planning the biggest layoffs in the company's history. Our core investors were categorizing Nokia shares as noninvestable and not even following us anymore. It was mainly hedge funds and short-term investors holding the shares. The press was speculating about the timing of the Nokia bankruptcy. Our employees were reading all that, experiencing major job losses that had already happened, and feeling very fearful for the future.

It was a difficult moment, substantively and emotionally. Many of the things that we did then were done instinctively. After thinking about everything that has happened, certain lessons have crystallized. But while it may sound as if I knew what I was doing, I assure you it was not always so.

The Quarterly: *What were some of those lessons?*

Risto Siilasmaa: I have formed a leadership philosophy that I call "entrepreneurial leadership." The core of that requires behaving as a paranoid optimist.

² Jim Collins, *How the Mighty Fall: And Why Some Companies Never Give In*, first edition, New York, NY: HarperCollins, May 2009.

The Quarterly: *That sounds a bit like Andy Grove's Only the Paranoid Survive.*³

Risto Siilasmaa: Yes, but he stressed the paranoia. You need both. If you're not an optimist, you can't energize people. But if you don't also scare them, then they won't be thinking about everything that can happen, and preparing for it. So in 2012, I was both scared and optimistic at the same time.

Somehow I decided that before we could plunge into all the issues we faced, we needed to stop for a moment and think about how we were going to approach them. While this was done instinctively, in hindsight it's one of the biggest lessons that I have learned: always, when you start something new, stop the team first.

Essentially, what I said was, "Let's forget about the issues we have at hand for a moment. Let's talk about what's really important. How do we work together? Is it important that we have fun together? Is it important that we work hard and give this our heart and soul? What are we prepared to do? How do we make decisions? If we have conflicts within the team, how do we resolve them? What are the rules by which we will live the part of our lives that we spend together?" And out of this, we created a list of what I called golden rules, for the board, and approved them immediately following the annual general meeting, where my board was formed.

There are seven, but I will call out two. The first rule is always assume the best of intentions from others. A simple thing, but if you can follow that, it will change how you behave in a lot of situations. The final one is that any meeting where we don't laugh out loud is a dismal failure. That's important, especially when you are making decisions that are emotionally hard. You can feel so bad, and everything is doom and gloom.

But that's when you need to work extra hard to get people to laugh. It helps you find the balance between being the optimist and the paranoid again. Otherwise, you just fall into the trap of being paranoid.

The Quarterly: *Say more about the practical impact of adopting these rules.*

Risto Siilasmaa: Let's go back to Jim Collins's five stages of how companies fail. The third stage is denial of truth, which means that you are in such a great position that any bad news is a threat. You tend to start punishing people who bring you news you just don't want to hear. And because things are going so great, you don't dive deep into the details.

³ Andrew S. Grove, *Only the Paranoid Survive: How to Exploit the Crisis Points That Challenge Every Company*, New York, NY: Crown Business, first edition, March 1999.

But as a board, we had agreed in our second golden rule that our philosophy would be data driven and based on analysis. Taking a stance of paranoid optimism meant we had to talk about the problems and about bad scenarios. We even had to discuss a possibility of a bankruptcy.

To enable those discussions, we first had to create a climate of trust with the executive team. Then CEO Stephen Elop gave me a lot of access to his top team, and our joint message was, “If you want us to respect you as an executive, you’ll level with us. You’ll come into the boardroom and tell us, ‘I have a big challenge. I don’t know how to deal with it. I have three initial plans. I’m not happy with any of them. Can you help me improve these plans and figure out the right way forward?’ But if you come with one idea, one solution, and try to sell that to us, then you will not get our respect.”

Next, having started the process to create trust within the board and between the board and the management team, we needed to create trust with employees—a difficult challenge given the layoffs we had endured and the many more we had to launch. To partially address this, we had already earlier created a program called Bridge, which provided substantial assistance in multiple ways to departing employees. It was so effective that, according to a university research study, about 18 months after people were fired, on average, 85 percent of them said that they were either “happy” or “very happy” or “satisfied” or “very satisfied” with the way they had been treated. That, in turn, created trust with the remaining employees, because those who had been laid off were not bad-mouthing the company. So the remaining employees were less afraid and more energized, which was critical, since many were working on key product projects with hard deadlines that required extra effort over, say, the holidays. But they did it. It blows me away when I think about it.

The Quarterly: *With this foundation, you soon found yourself embarked on two years of hyperactive deal making. How did the strategy behind that evolve?*

Risto Siilasmaa: Just to set the context, shortly after I became chairman, Microsoft, which was then our exclusive handset partner, announced it was bringing out the Surface tablet. That was a real shot across the bow, since they were moving for the first time into the device business. We had to start thinking, “What if Microsoft comes into the market with a smartphone of their own and competes against us? How do we manage that?” And then, early in 2013, Microsoft reached out to us saying they had an interest in acquiring Nokia’s handset business. At that moment, I still believed that we could turn handsets around. The optimist side was still winning. But after a

series of exploratory discussions, and as more negative data kept coming in, I realized that the paranoid side was right, and we had to divest. Because if we didn't, this could end really badly.

At the same time, we had a share in a network-infrastructure joint venture, NSN, which had been spun off some years earlier. Both Nokia and Siemens had, in effect, given up on the network business as noncore. As a stagnating joint venture, NSN and its management had been incentivized either to become an IPO or a trade-sale asset. At one point, each parent company funded NSN with \$500 million—and basically said that was it: “Go bankrupt if you will, but you will not get a penny more.” The fact that it subsequently became a vibrant business just emphasizes the fantastic turnaround that Rajeev Suri [now Nokia's president and CEO] and his team pulled off there from 2011 on. As the recovery became visible to us, we decided in mid-2013, while exploring the handset sale to Microsoft, to buy the 50 percent of NSN that we didn't already own. We could see that this could be of tremendous value. Once we made that decision, then the next year we began exploring how to implement our new strategy. One alternative out of six that we looked at was to create a market leader in networking by acquiring Alcatel-Lucent.

As a side note, one thing I instinctively felt, and that again proved critical in all these negotiations, was the importance of building a foundation of trust with our counterparties. In the first meeting with Microsoft, for example, we had probably 30 people in the room, lawyers and bankers on both sides, a huge army of people. Under such circumstances, anybody speaking is performing for an audience. There's no way to create trust when people are acting a role. So after that first meeting, I agreed with [then Microsoft CEO] Steve Ballmer that, from now on, we would not allow a single banker or external lawyer into the room, only the four key principals on each side. In a series of meetings, both one on one and as what we called the “four by four,” we discussed what was important, what we had learned, and what we were trying to achieve. That worked well, in terms of creating familiarity and trust and allowing us to get to results.

We used exactly the same model when negotiating with Alcatel-Lucent: no outsiders in the room and a lot of one-on-one discussions. As a result, we were able to avoid structuring the deal as a merger of equals, which have historically not had the highest odds of success. Instead, we were able to make the argument that it should be structured as an acquisition, where we took two-thirds and they got one-third.

The Quarterly: *What motivated the Alcatel-Lucent acquisition?*

Risto Siilasmaa: During the period from announcing the Microsoft deal in the fall of 2013 to closing it in May 2014, there was a period of roughly eight months, when I was both CEO and chairman. We had the questionable pleasure to rebuild the future for the company, questionable in the sense that while it's a great thing to be able to draw from a clean slate, it's also the outcome from a failure of the previous business model. Because even after moving entirely into networking, Nokia was a one-trick pony. We were mobile-broadband specialists, and we couldn't deliver an end-to-end experience.

To realize that future, we set five goals. First, create a new vision for the company. It's a vision we call the programmable world. In the programmable world, tens of billions of mobile sensors feed data into interoperable cloud platforms, which perform intelligent analysis and translate the learnings into actions that are fed back to the real world via actuators, such as valves, engines, locks, autonomous machines, and devices of all sorts. As the real world becomes programmable and connectivity expands massively, we can create new possibilities for people and businesses by embedding these intelligent, software-driven networks seamlessly in our lives.

We then had to create a strategy to help fulfill that vision. Next, generate the right organizational model to implement that strategy. Then put people into the model—the management team and the CEO. Finally, decide about the balance sheet. We did all five. And Alcatel-Lucent, under Rajeev's leadership as CEO, turned out to be an ideal answer to many of the unanswered questions about, "How can we execute this strategy?"

The upshot is, it is working. In the summer of 2012, Nokia's market capitalization was \$5 billion and our enterprise value was \$1.5 billion. By the beginning of this year, our market capitalization was close to \$40 billion and our enterprise value was about \$30 billion. While our share price has since dropped significantly in a tough year for the industry, we have continued to outperform our closest competitors. Out of some 100,000 employees today, less than 1 percent had had a Nokia badge three years ago. We essentially transformed the whole company by changing out all the "atoms." We are doing so much more than what Alcatel-Lucent and what Nokia did in our tech business and also in our R&D work. But this all started from that strategy process, and it's still basically founded on that vision of the programmable world. That's where we're going. 

Risto Siilasmaa is the chairman of Nokia. This interview was conducted by **Rik Kirkland**, senior managing editor of McKinsey Publishing, who is based in McKinsey's New York office.