

Dawn of the iPhone soured success story

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Jorma Ollila admits it was not easy showing the door to Olli-Pekka Kallasvuo after 25 years working together at the top of Finland's biggest company.

"There was no slamming of doors, even though this was a difficult process," says the Nokia chairman, explaining Mr Kallasvuo was informed over the summer that a search was under way for his successor.

Mr Kallasvuo took over from Mr Ollila as chief executive in 2006, charged with continuing the success story that had seen Nokia transformed under Mr Ollila's leadership from a sprawling conglomerate into the world's biggest mobile phone-maker.

Instead, the storyline was turned on its head by the entry of Apple into the market with its flashy iPhone, heralding a shift from the basic handsets made by Nokia towards a new generation of smartphones.

"There have been issues about how quickly we were to turn around after we saw there was a sea change," says Mr Ollila in an interview.

Under mounting pressure from investors over the plunging share price, Mr Ollila says Nokia's board launched a review in October to assess how well strategy was being implemented. In late May, he says, the board concluded it should seek a new chief executive.

Several internal and external candidates were considered before a decision was made about four weeks ago to offer the job to Stephen Elop, head of business at Microsoft.

"Stephen stood out because of his strong background in the software industry," says Mr Ollila. "He has an energetic and motivating leadership style and a record in change management."

Mr Elop already had close ties to Nokia through a software alliance with Microsoft and the Canadian insists the ingredients for recovery are already in place. "The challenges faced by the company are well understood by the people here within the company and most of the answers to those challenges are understood here as well," he says in an interview.

One of the biggest challenges is to improve Nokia's poor performance in the US – something Mr Elop says he is determined to do, but he insists he will not neglect the group's existing strongholds. "I don't think there is nearly enough recognition of the success Nokia's had in some of the fastest-growing markets like India, China and Russia."

Mr Ollila stresses that change of leadership does not signal abandonment of Nokia's efforts to shift focus from hardware to software and services.

Some analysts believe the company should give up trying to develop its own operating system to rival that of the iPhone and instead adopt Google's Android platform. Both Mr Ollila and Mr Elop ruled out any such shift in the near-term.

"He has the mandate like any chief executive to look afresh, but he was not employed to shake up strategy," says Mr Ollila.

He argues critics have focused too much on Nokia's troubles at the high end of the smartphone market without giving credit for its success in emerging markets. But he acknowledges that Nokia must come up with a more formidable answer to the iPhone and other rivals.

"In order to be a frontrunner overall, you need to be strong in the high-end segment," he says. "It's not an obsession that you've got to be ahead in every single segment. But the high end is important, because so much innovation takes place there."

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