Activity 3.1 **What are 'organisational cultures and contexts'?**

Before reading this chapter, write some notes on what you understand by the term 'organisational cultures and contexts'.

Choose the organisation or people you hope may be able to help you learn about the topic. You may find it helpful to discuss the topic with a manager you know, or reflect on an activity you have managed.

- Make brief notes on the main features of the organisation's culture and how people describe it.
- What are likely to be the main factors outside the organisation which affect it?
- How (if at all) have changes in those external factors altered what managers do?

Keep these notes as you will be able to use them later.

3.1 Introduction

Nokia's performance depends on the ability of its managers to understand what consumers expect from a mobile phone and to meet those requirements more effectively than competitors. It also depends on staff identifying scientific research that may lead to new features in its handsets – and assessing whether customers would value them in the next generation of products. The early success of the company was helped by recognising that many users see a mobile as a fashion accessory, and by using its design skills to meet that need. It also gained when the European Union established common standards for mobile telephony, which the Finnish government supported. In recent years, the company has found it hard to compete with devices such as the iPhone from Apple, and with lower cost producers of basic handsets. It has recently formed an alliance with Microsoft to try to recover its position in the industry.

All managers work within a context which both constrains and supports them. How well they understand, interpret and interact with that context affects their performance. Finkelstein (2003) (especially pp. 63–68) shows how Motorola, an early market leader in mobile communications, failed to take account of changes in consumer preferences (for digital rather than the older, analogue mobile phones). By the time managers understood this change, Nokia had a commanding lead in the market. Each business is unique, so the forces with which they interact differ: those who are able to identify and shape them (Nokia) will perform better than those who are not (Motorola). In 2009, Nokia in turn may have underestimated the effect which smartphones would have on the market, allowing Apple to take market share.

Figure 3.1 shows four environmental forces. The inner circle represents the organisation's **internal environment (or context)** – introduced in Chapter 1. That includes its culture, often a major influence on performance. Beyond that is the immediate **competitive environment (or context)**, sometimes known as the micro-environment. This is the industry-specific environment of customers, suppliers, competitors and potential substitute. The outer circle shows the **general environment (or context)**, sometimes known as the macro-environment – political, economic, social, technological, (natural) environmental and legal factors that affect all organisations. Forces in the internal and competitive environments usually have more impact on, and are more open to influence by, the organisation than those in the general environment.

The competitive and general environments make up an organisation's **external environment (or context)** – a constantly changing source of threats and opportunities: how well people cope with these affects performance.

Forces in the external environment become part of the 'management agenda' in an organisation only when internal or external stakeholders draw attention to them in some way. In

The **internal environment (or context)** consists of elements which make up the organisation – such as its structure, culture, people and technologies.

A **competitive environment (or context)** is the industry-specific environment comprising the organisation's customers, suppliers and competitors.

The **general environment (or context)** (sometimes known as the macro-environment) includes political, economic, social technological, (natural) environmental and legal factors that affect all organisations.

The **external environment (or context)** consists of elements beyond the organisation – it combines the competitive and general environments.

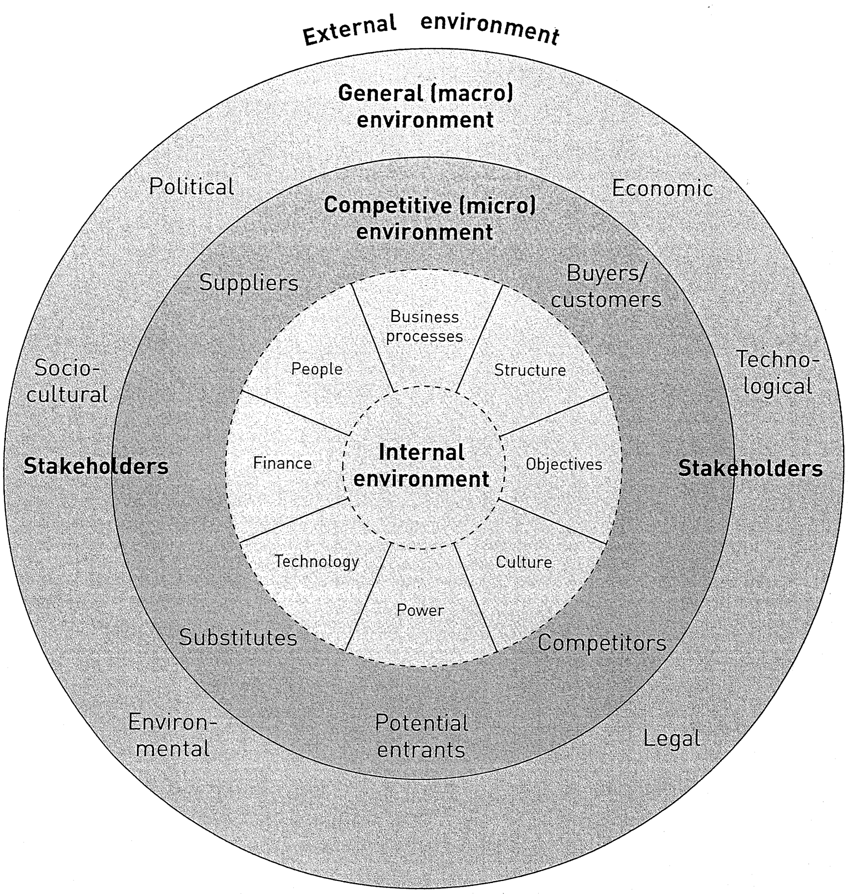

Figure 3.1 Environmental influences on the organisation

terms of Figure 3.1, they are a fourth force. Managers (who are themselves stakeholders) balance conflicting interpretations of their context. They work within an internal context, and look outside for actual and potential changes that may affect the centre of Figure 3.1. The figure implies a constant interaction between an organisation and its external environment.

Managers do not passively accept their environment, but try to shape it by actively persuading governments and other agencies to act in their favour (known as 'lobbying'). Car manufacturers and airlines regularly seek subsidies, cheap loans or favourable regulations, while most industry bodies (such as the European Automobile Manufacturers Association – **www.acea.be**) lobby international bodies such as the European Commission – often through professional lobbying companies.

The next section presents ideas on organisational culture. Beyond that, managers need to interact intelligently with their external environments, so the chapter also outlines stakeholder expectations and introduces ideas on governance and control.

3.2 Cultures and their components

Culture is a pattern of shared basic assumptions that was learned by a group as it solved its problems of external adaptation and internal integration, that has worked well enough to be considered valid and transmitted to new members (Schein, 2004, p. 17).

Developing cultures

Interest in organisation **culture** has grown as academics and managers have come to believe that it influences behaviour. Several claim that a strong and distinct culture helps to integrate individuals into the team or organisation (Deal and Kennedy, 1982; Peters and Waterman,

Case study Nokia www.nokia.com

Nokia is struggling to survive in the very competitive mobile phone business. In 2008 it had 40 per cent of the world handset market, but at the end of March 2011 that had fallen to 29 per cent. This was still well ahead of Motorola, and many times the number sold by rivals such as Samsung and Ericsson: but its position was being challenged by competitors. Managers were making big changes in the company to meet the expectations of customers and shareholders. In April 2011, it announced that 4000 jobs would be lost by the end of 2012, most of them in Denmark, Finland and the UK: in June it warned that profits for the year would be well below expectations. The value of shares in the company fell to their lowest level since 1998.

The Finnish company was founded in 1895 as a paper manufacturer, and then grew into a conglomerate with wide interests including electronics, cable manufacture, rubber, chemicals, electricity generation and, by the 1960s, telephone equipment. In the early 1990s senior managers decided to focus on the new mobile phone industry.

Two factors favoured this move. First, the Finnish government had taken a lead in telecoms deregulation and Nokia was already competing vigorously with other manufacturers supplying equipment to the national phone company. Second, the European Union (EU) adopted a single standard – the Global System for Mobile Telephony (GSM) – for Europe's second generation (digital) phones. Two-thirds of the world's mobile phone subscribers use this standard. Finland's links with its Nordic neighbours also helped, as people in these sparsely populated countries adopted mobile phones enthusiastically.

Nokia had strong design skills, but above all, managers were quick to recognise that mobile phones were now a fashion accessory. By offering smart designs, different ring tones and coloured covers, Nokia became the 'cool' mobile brand for fashion-conscious people. Nokia had also mastered the logistics of getting millions of phones to customers around the world.

While many competitors subcontract the manufacture of handsets, Nokia assembles most of its own, with factories in many countries across the world. Managers believe this gives them a better understanding of the market and the manufacturing process. Nokia buys about 80 billion components a year, and has close relationships with its most important suppliers.

Courtesy of Nokia.

In March 2011 it reported sales of 108.5 million units in the previous quarter. It is continuing to add value to its devices by integrating them with innovative services providing music, maps, apps and email. It also believes that its wide range of handsets means it will be able to meet demand if customers begin to prefer cheaper handsets.

One factor in the company's sustained success was believed to have been a culture which encourages co-operation within teams, and across internal and external boundaries. Jorma Ollila, CEO until 2006, believed that Nokia's innovative capacity springs from multi-functional teams working together to bring new insights to products and services. Staff in the four divisions work in teams which may remain constant for many years – but sometimes combine with other teams to work on a common task.

Informal mentoring begins as soon as someone steps into a new job. Within a few days, the employee's manager lists the people in the organisation whom it would be useful for the employee to meet. They also review what topics the newcomer should discuss with the suggested contact, and why establishing a relationship with them is important. The gift of time – in the form of hours spent on coaching and building networks – is a crucial part of the collaborative culture.

Nokia also encourages a culture of communication by creating small groups to work on a strategic issue for four months. This helps them to build ties with many parts of the company – some of which continue during later work. The induction process for new employees also encourages team-building and co-operation: the newcomer's manager must introduce them to at least 15 people within and outside the team.

It is struggling to compete at the top end of the market, where smartphones offer a range of multimedia services: these probably represent about 20 per cent of handset sales, and sell for much higher prices than basic models. The convergence of the technologies underlying the mobile and computing industries has enabled companies like Apple (originally a computer business) to launch the iPhone, which has gained a strong position in the smartphone market. Other companies have adopted Google's Android software to develop a further range of devices to compete with Nokia.

As profits declined, shareholders began to demand that Nokia's board act to improve its performance – especially when the company's market share declined from 36.4 per cent at the end of 2009 to 28.6 per cent in the last quarter of 2010. One consequence was to dismiss the then Chief Executive, and replace him with Steve Elop, who had worked for Microsoft.

In early 2011 the company announced it would collaborate with Microsoft to develop a new range of devices and software – which included using the Microsoft Windows Phone 7 operating system for next generation of smartphones. Microsoft has been keen to build presence in smartphones, but its own brands have not established a strong presence. It hoped that an alliance with Nokia would help it improve its position.

Sources: Grattan and Erickson (2007); Doz and Kosonen (2008); *Financial Times*, 17 July 2009, 22 January 2010, 8 April 2011, 28 April 2011, 1 June 2011; company website.

Questions

1 Which of the cultural types identified by Quinn *et al.* (2003) would you expect to find within Nokia's handset business? (Refer to Section 3.3.)

2 Use Porter's five forces model to outline Nokia's competitive (micro) environment. (Refer to Section 3.4.)

3 Which PESTEL factors are most affecting the macro environment of the industry? Are they likely to be positive or negative for Nokia? (Refer to Section 3.5.)

4 Who are the main stakeholders in Nokia, and what are their interests in the success of the company? (Refer to Section 3.6.)

5 Visit Nokia's website, and read their most recent trading statement (under investor relations). What have been the main developments in the last year?