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Survey of Finnish Executives



HOT TOPICS ON THE MINDS OF SENIOR EXECUTIVES OF FINNISH COMPANIES

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NAG Executive Forum

For the past three years, the Nordic Adviser Group (NAG) has been hosting an event, the NAG Executive Forum, for top executives in Finland. The participants, all of whom are C-level managers, represented a wide array of prominent Finnish companies, ranging from traditional industrials to financial services in private, public and state-owned sectors. The event includes various case discussions and lectures on leadership, innovation, leading change and talent management. All forum attendants are encouraged to participate and share their views on the issues covered. The event is an opportunity for top executives to come together in a more relaxed setting and to learn from one another as well as to get access to the latest thinking and practices on the most important leadership and management topics.

About Nordic Adviser Group

NAG is a Finnish top management consulting firm that serves its clients in making and in implementing key strategic choices. Established in 1998, it boasts a dedicated, experienced team with a wide field of expertise, and puts emphasis on providing unique, tailored solutions to its clients.

About Boris Groysberg

Dr Boris Groysberg is on faculty in the Organizational Behavior unit at the Harvard Business School. His research focuses on the challenges of managing human capital and the impact of leadership on organizational performance. In particular, his work examines how a firm can be systematic in achieving a sustainable competitive advantage by leveraging its talent at all levels of the organization, from professionals to senior executives and boards.

About Kalle Heikkinen

NAG's managing partner Kalle Heikkinen has been advising private and public sector clients since 1991. He has advised his clients in Europe and North America in the fields of strategy, structural transformation and corporate change programs. He has an MBA degree from Harvard.

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HOT TOPICS ON THE MINDS OF SENIOR EXECUTIVES OF FINNISH COMPANIES

About the Survey

As part of this event, a summary self-evaluation report of each participant firm was completed prior to the event by the firm's own management team. This survey, conducted by Professor Groysberg and NAG, focuses on leadership, innovation, organizational design, strategy, culture and human capital. In addition, the survey asks the executives four open ended questions: "What are some areas in which you think your company is strong?", "What are some areas where you think your company needs to be stronger?", "In the future, what will be the two or three key opportunities open to your company?", and "What are the two or three key threats (internal or external) facing your company?". Based on these questions, we compiled a list of the five hottest topics in Finnish executives' minds in 2010. Hot topics are issues that have been most frequently mentioned by the executives in our survey. They present either an opportunity or a challenge. Management priorities of top executives change in different phases of the business cycle. When the financial crisis hit in 2008, Finnish companies focused on streamlining their operations and cost cutting. In 2010, as these companies are rebounding from the depths of the recession, they are facing new challenges and new management priorities. Many are driven by the macroeconomic uncertainties in the euro zone, and the forecasted slow growth in Europe and the US.

We studied issues that seemed to be rising in the Finnish top managements' agenda, and we also compared the 2010 results with the results of 2009. In addition to these open-ended questions, other quantitative questions were included which asked the managers to rate their own company's performance on certain defining aspects of the firm. (The findings from that part of the survey will be given the deserved attention in another publication upon completion of analysis.)

A total of 27 companies and organizations participated in the survey, and there were a total of 140 completed surveys, with 78 replies in 2010 and 62 in 2009.

Executive summary

Finnish executives stated that their companies were strong in product and service quality, customer service and operational efficiency. When asked where they needed to be stronger, they indicated that they needed to be more customer driven and stronger in innovation. They also maintained that they must improve systems and processes for organizational renewal. The biggest opportunities were seen in strengthening their companies' global presence, especially in the emerging markets. Also, partnering and M&A, and environmental improvements were frequently mentioned. When asked about the biggest threats that they were facing, they indicated a lack of success in innovation. Other key concerns centered around striking the balance between central control and local responsiveness by aligning organizational structure, systems, and organizational culture, as well as becoming more customer driven.

Overall, the five topics that were most cited by our executives were:

- Creating and sustaining innovation
- Becoming more customer driven
- Striking the balance between central control and local responsiveness
- Making change happen
- Capturing and managing global opportunities

The themes that gained most in importance between 2009 and 2010 were opportunities in environmentally friendly technology, growth in emerging markets, and talent and performance management.

We concluded that after focusing intensively on streamlining and cost cutting in the aftermath of the financial crisis, Finnish managers have clearly shifted their attention to building organizational capabilities and platforms for innovation and growth.

Hot topics on the Finnish executives' agenda in 2010

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Hot topic #1: Creating and sustaining innovation

It was no surprise that innovation came through as the hottest management topic of focus in Finland in 2010. That business environment that Finnish companies operated in mandated that revenue growth come from better products and services. It was interesting that innovation was mentioned mostly as a threat facing the companies (29%) or an area where they needed to be stronger (31%). Very few Finnish companies considered innovation as their strength. To some degree, this was surprising, given the high priority that innovation has had in the Finnish government's agenda. One executive explained that one reason for the inability to innovate is that "we like to make our systems and organizations too complex, which inhibits innovation". Another executive stated that "it is difficult to make employees understand and accept the long process of innovation or experiments to make a profit". Some said that there was "not enough risk taking and boldness". While innovation receives priority and focus from the Finnish government, it is important to couple it with a tolerance for failure and mistakes. Finally one put it directly: "We should improve our innovation process to accelerate our growth".

We have seen that innovation is a capability and process that can be learned. However, innovation cannot be delegated to some department or function; it cuts across the whole enterprise – systems, skill sets, organizational structure and

culture. As an example, a prominent feature of innovative organizations that is often missing in Finnish companies is acceptance of failure. Therefore, innovation strategy should be guided by a clear vision, supported by comprehensive projects, led from the very top and involve a large number of key executives and employees across different businesses and functions willing to learn from failure and build on successes.

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Hot topic #2: Becoming more customer driven

Finnish companies have traditionally thrived based on high quality engineering and manufacturing as well as high-quality products. Many believe that these competencies will continue to be cornerstones of their success in the future. However, this product-focused strategy has often meant less focus on customers and markets and more focus on products. In fact, product silos interfered with delivering business solutions to many clients. The executives in our survey were clear on this weakness. 31% of the senior executives mentioned customer centricity as an area where they needed to be stronger. Also, 24% ranked customer centricity as one of the main threats for their enterprises. One executive indicated that "we should start with the customer need rather than product and production". Another added: "we are too much focused on what is important for ourselves and our production and sometimes forgetting what the market needs". One put it succinctly, "we should turn into a real customer-driven company". Yet one executive in our survey stated that his company "is stuck with continued silo thinking which prevents us from seeing the rapid developments in the markets".

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Almost every Finnish company we spoke with understood how important it was to be customer driven in the marketplace. However, getting there continued to be a challenge. We noticed that the concept of customer centricity was useful in this process. Being a customer centric enterprise is realizing that one must look at one's company from the outside-in – rather than inside-out – that is, through the lens of the customer rather than the producer. The journey towards being more customer centric involves first understanding the customer base: who are (and who could be) the firm's most profitable customers, who are the most loyal, which customers provide the best life time value, as well as other customer characteristics should be considered. It involves developing a vision of what one should look like as a customer centric company and realigning the enterprise to focus on customer solutions and relationships, not on functional and product silos. Make no mistake: these silos are often unavoidable, but what is then required is strong leadership, systems, and organizational culture that forces the enterprise to collaborate and to focus on customers and their problems. It also involves redesigning the firm's value proposition and delivery so that the firm is able to differentiate itself from the competition. It then involves promoting a culture that puts information and feedback on the customer relationships at the core of employees' minds, and developing incentives and tools that support it.

When we talk about customer centricity, we are talking about building and cultivating a two-way relationship – having a dialogue with valued customers and subsequently delivering a solution based on this dialogue.



Hot topic #3:

Striking the balance between central control and local responsiveness

Finnish executives in our survey wondered how to strike an optimal balance between central control (how strong the central control, monitoring systems and policies are) and local responsiveness (how much freedom the employees have in making decisions). 27% of the executives mentioned this topic as an area where their firms needed to be stronger. Equally interestingly, 25% of the executives identified problems in this area as one of the key threats they are facing. One executive said that his company should “delegate responsibility by trusting our people nearest to the issues”. Similarly, one business unit head said “we should give more execution power to the business units. Have more real corporate governance, less interference from the top”. On the other end of the spectrum, one executive stated that there should be more central guidance and “we should force the change down the organization”.

We observed that one must carefully diagnose whether there is more need for central guidance or local responsiveness. Strong performing companies are well aligned and know how to balance both central control and employee empowerment. We learned that if one must start from somewhere, one should begin with putting the platform (strategy, structures, processes, systems) firmly in place first. Once these are in place, one then moves to empower the frontline.

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Hot topic #4:

Making change happen

Continuous adaptation is a must in the global business environment. It was striking that 24% of the Finnish executives ranked difficulties in implementing change as one of the top threats their company was facing. 14% mentioned it as an area in which they needed to be stronger. Some companies possess strong market positions and thus have difficulties in generating buy-in for any changes. However, executives at those companies are worried how sustainable those positions are, given that these companies are facing tough global competition that will inevitably require a quicker change than currently seems achievable. One executive wondered “how to persuade individual business units and persons to focus on collaboration and commitment to maximize the company performance instead of just on their own businesses”. One indicated that his company “reacts too slowly to change, plays too much on the safe ground, and loses opportunities”. Another mentioned one of the biggest obstacles to organizational change and renewal: “past successes have created false beliefs which prevent our necessary transformation”.

We observed a marked difference in change readiness between the Finnish companies that compete directly in the global markets and the companies that still focus mostly on the home market. Usually the ones facing global competition tend to be less bureaucratic and more adaptive. Yet, even for these companies, past success is no guarantee of continued high performance in the future. We believe that even the best performing companies need to build adaptive organizations willing to constantly learn and change as well as the organizational architecture that supports it.

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Hot topic #5:

Capturing and managing global opportunities

Facing the slow growth prospects in Europe and the US, it was not surprising that 27% of the Finnish executives mentioned the emerging markets of Asia, Russia and Eastern Europe as one of their biggest opportunities. For many, these same regions also presented a source of concern because of the growing competition. In fact, 24% of the executives mentioned competition from these countries as one of the biggest threats they faced. One manager reflected a widely held view: “our opportunity is global sourcing in Asia (China and India)”. Another executive stated, “Asian low cost competitors are attacking our markets”. One executive concluded “we need better systems to support global growth”.

Entering the emerging markets in Asia and East Europe is a necessity for many Finnish companies, and there is little time to be wasted. Having stated that, entry into these markets, and success thereafter, requires a new type of thinking from many Finnish companies. If one is to be serious about succeeding in the emerging economies, one must begin to think and position oneself as an insider in these markets. Becoming an insider requires, simultaneously, global and local mindsets from the company - in thinking, in recruiting people and in allowing for product as well organizational experimentation. Being an insider also requires creating a more inclusive culture that values and leverages diversity of perspectives and backgrounds. Success would be elusive if there is, as one executive put it, “too much Finnish thinking, too little global thinking”.

Up & coming topics 2010

We compared the survey results from 2010 to 2009 on the emerging topics. The strongest risers on Finnish managements' agenda were:

- Environmentally friendly technologies (absolute increase in popularity by 16%),

- Capturing and managing global opportunities (absolute increase in popularity by 14%), and

- Talent and performance culture (absolute increase in popularity by 12%).

Table 1: **Up and coming topics**



Top 5 Strengths, Areas to be Stronger, Opportunities, and Threats, in 2010

Environmentally friendly technologies and services were perceived as the next big opportunities driven by tighter regulation, demand for sustainable technologies and the need for energy efficient and cleaner processing. Global opportunities were also on our Hot Topics list of 2010, driven by the growing importance of China, India, Russia and Eastern Europe. Interestingly, talent and performance management also rose

rapidly in the rankings. Respondents cited the need for a more demanding performance culture, the need for training executives to be better in managing performance of subordinates, the need for experienced people globally, the need for better internal training and development programs, and the need to address the challenge of rewarding extraordinary performance appropriately.

“What are some areas in which you think your company is strong?”

- Product and service quality. 31% of Finnish top executives stated that product and service quality was their key strength. This was indicative of the overall orientation of Finnish companies.
- Customer service. 29% of the executives cited customer service as their strength. It was interesting to find that many executives indicated that they have problems with being customer driven.

- Operational efficiency. 29% of managers said that operational efficiency was their key strength. This is logical, given the orientation of Finnish businesses.
- Striking the balance between central control and local responsiveness. 22% of respondents identified their strength as their ability to align structure, systems and culture. Interestingly, many more executives cited this same area as their key weakness.
- Finance and balance sheet. 22% of executives stated that financial strength was their key strength. This is logical since Finnish companies are strong in their financial positions.

Table 2: Key strengths



“What are some areas where you think your company needs to be stronger?”

The following five topics were the most often mentioned by Finnish top executives as areas in which their companies needed to improve. Significantly and somewhat surprisingly, four of these topics made our list of the five Hot Topics in 2010:

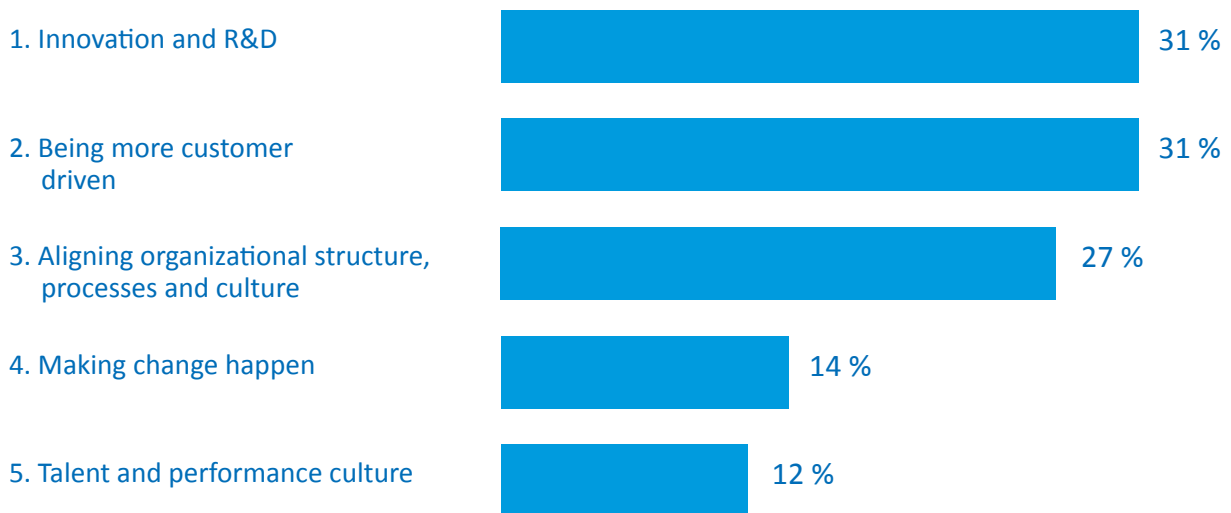
- Creating and sustaining innovation. 31% of respondents mentioned innovation and R&D as an area where they needed to be stronger.
- Becoming more customer driven. 31% of respondents cited the need for being more customer driven. As indicated, this area was identified so frequently that it made the list of Hot Topics for 2010.

- Striking the balance between central control and local responsiveness. 27% of the executives that responded mentioned issues in the alignment of a company’s structure, processes and culture. Most comments dealt with striking an optimal balance between central guidance and local decision making.

- Making change happen. 14% of respondents cited change management as an area where they needed to be stronger.

- Talent and performance culture. 12% of respondents cited talent and performance culture as an area to develop. This area will be interesting to follow as it is an up and coming topic in 2010, having not been mentioned at all in 2009.

Table 3: Need to be stronger



“Looking into the future, what are the two or three key opportunities open to your company?”

Key opportunities mentioned by Finnish executives were:

- Capturing and managing global opportunities. 27% of the executives mentioned markets in China, India, Russia and Eastern Europe as key opportunities available to their companies.
- Revitalization of product and service offering. 22% of the managers felt that they were well positioned to rethink their product lines. This can be achieved through expansion, focusing or revitalization of their current offering.

• Partnering and M&A. 20% of the executives that responded indicated that partnering and mergers & acquisitions offered new opportunities to them. It is typical that M&A picks up as the markets recover.

• Environmentally friendly technologies. 18% of the respondents anticipated that environmental technologies and services would be a source of new opportunities available to them. This is logical since environmental technologies will be the major growth area in the coming years.

• Becoming more customer driven. 16% of the respondents viewed becoming more customer driven as an opportunity. Interestingly, this issue featured high on the list of challenges as well.

Table 4: Key opportunities



“What are the two or three key threats (internal or external) facing your company?”

The following five topics were the most often mentioned as challenges by Finnish top executives in 2010:

- Creating and sustaining innovation. 29% of all respondents mentioned innovation and R&D as a key threat.
- Striking the balance between central control and local responsiveness. This was an issue that was mentioned by 25% of the executives surveyed. Some executives stated that people closest to the markets had too little decision making authority. On the other hand, many executives said that central guidance has been too weak.

- Becoming more customer driven. Too much focus on products and production and too little focus on customers were prevalent in Finnish companies. 24% of all respondents declared that one of the biggest threats they were facing was weak customer orientation.
- Making change happen. 24% of all responses dealt with issues around leadership of change and change management. This is understandable as the global business landscape evolves rapidly, and makes creating and driving change a necessity.
- Capturing and managing global opportunities. 24% of executives in our survey discussed the problems of managing global enterprise.

Table 5: Key threats

