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Nokia – how cognitive biases ruined its competitive advantage

Nokia is a multinational technology corporation that provides telecommunications, network infrastructures, and consumer electronics. It was founded in 1865 and is headquartered in Espoo, Finland. In 2007, Nokia had a market capitalization of $121B and revenues of $70.6B. In this paper, I will focus on Nokia's mobile phone division and how its market share plummeted from a dominant 49.4% in 2007 to a 3% in 2013 which inevitably subverted Nokia's market cap to $5.5B in 2012 and its revenues to $6.3B in 2014.

The author of the article elaborates on how cognitive biases can cause executives to make poor strategic decisions while facing external threats. Such systematic errors occur when managers process information ineffectively. Escalating commitment, and prior hypothesis bias, are typical biases that trigger managers to commit more and more resources on failing projects on the basis of their strong prior beliefs, even if they're misaligned with presented evidence.

Sometimes managers and particularly top executives tend to overestimate their ability to control events due to their overconfidence about their ability to succeed. This bias is referred to as the illusion of control.

Since the 90's, and for two decades, Nokia was indeed the largest phone mobile manufacturer. The author emphasizes on how Nokia failed in taking the right strategic decisions to accommodate the new disruptive technologies like how Apple and Google did. During that crucial time frame, Nokia's general managers allowed their cognitive biases to intrude into the decision-making process and failed the company to sustain its competitive advantage.