

Introduction to the study and methodology

Preamble

In June 2009, Nortel Networks (Nortel), once Canada's largest company and a firm that had recently been number one in the global telecommunications supply industry, announced that it would sell all its business units and effectively end over 100 years of operations. A research study conducted by a diverse team from the University of Ottawa set out to learn why Nortel eventually found itself in this situation. The objective of the study was to identify lessons learned about corporate failure. We hope that these lessons learned will help leaders in organizations to identify critical failure factors; and thus, take steps to avoid following the path of Nortel.

The lessons learned emerged from a research project that included faculty members from the schools of management, law and engineering. The researchers collected data using surveys and interviews drawn from hundreds of key figures in the global telecommunications industry. This report reflects the combined knowledge of hundreds of customers, competitors, government officials, academics, consultants, association executives, ex-Nortel employees, media specialists, industry watchers and thought leaders who formed part of the Nortel ecosystem.

The remainder of this document provides an introduction to the study, describes the key milestones noted in the demise of Nortel and sets out the attendant lessons learned. It then proposes a 'failure model' that can be applied in analyzing the potential for organizational failure.

Introduction

The study was kick-started when Jean Monty (CEO of Nortel 1993-1997; CEO of BCE 1997-2002; and currently the Vice Chairman of Alcatel Lucent) approached a member of the project research team. Mr. Monty offered funding and assistance for an academic investigation into why Nortel failed and what lessons could be learned from its failure – a case study. Other senior ex-Nortel officers joined Mr. Monty in this endeavour offering financing and other assistance. Over the course of the project, these individuals acted as an advisory group, which was expanded with the addition of several other ex-Nortel executives from the United States and Europe, each of whom offered to help us learn about the failure of the company. The advisors shared their knowledge with the research team and were instrumental in encouraging their industry colleagues to participate in the study.

Thanks in no small part to the efforts of these advisers, we interviewed, surveyed and in some cases re-interviewed 48% of all of Nortel's officers from 1997 through January 2009, including CEOs, several senior officers who were in the room when Nortel decided to file for bankruptcy protection and multiple customers, including 18 who were interviewed and seven who reviewed the final study findings – all of whom were at the 'C' level in their current companies. In addition, many competitors, journalists, academics, consultants, government officials and politicians provided their time and insights and in

some cases connections to help with this study. In addition, we reviewed annual reports and 10K securities filings¹ over the study period, as well as numerous studies and articles.²

The study used multiple lines of enquiry that enabled triangulation and validation. The process started with a review of the failure literature and with reviews of articles, studies and other documents about Nortel. This produced an initial list of potential reasons for Nortel’s failure. This list was used as the basis for creating a survey and an interview guide. These were tested on a group of former Nortel officers to assess its efficacy. The instruments were then revised based on their feedback.

The interviews consisted of open-ended questions asking participants why they thought that Nortel had failed. Additional open-ended questions were asked in the areas of organization, technology, strategy, governance, environment, and finance. All interviews were transcribed and then coded. Codes were developed based partially on the literature on corporate failure and partially on a review of the initial interviews. The survey consisted both of open-ended questions (for example, “list three reasons why you think Nortel failed”) and of Likert questions that asked respondents to evaluate the extent to which they agreed with statements about Nortel (for example, “Nortel was a leader in technology”).

Table 1: Those Interviewed and Surveyed

Method	Total*	Officer/Senior	Employee	Customer	External
Initial survey	343	60	265	53	127
Interviews	133	46	45	18	35
Final survey	57	20	18	8	13
Validation interview	22	11	0	7	6

*Note, in several cases respondents identified themselves as “wearing more than one hat” during the time frame of the study. As a result, in adding up officer/senior + employee + customer + external the number is greater than total number of actual interviews/survey responses.

A second survey was sent out to all those who had participated in the interviews. Participants were asked four questions. Why did Nortel fail? What could have been done to prevent the failure? What are the lessons learned from the Nortel failure? What were Nortel’s strengths in the end? Section 5 of this report (Appendix) summarizes the results from the surveys and interviews.

The data arising from the two surveys and the interviews were then used to develop lessons learned about the failure of Nortel and used as the basis from which to develop a model of corporate failure. As a final validation step, these findings and the model were presented to 22 people who were interviewed for the study. Table 1 provides a summary of the respondents to the surveys and interviews.

¹ 10K securities filings are to the U.S. Securities and Exchange Commission (SEC).

² While several ex-Nortel board members volunteered to be interviewed, they were advised by counsel not to participate at this time. We appreciate their offer and recommend that they be interviewed when they are able to participate in future phases of this study.