

Key lessons learned from the demise of Nortel

OTTAWA, March 17, 2014 – Three years ago, an interdisciplinary team from the University of Ottawa set out to learn about corporate failure from the demise of Nortel, once Canada's largest company. The team studied Nortel's activities for the period from 1997 to 2009. The resulting report explains how a combination of external shocks and managerial decisions led to the eventual demise of a Canadian giant. At its peak, Nortel was the ninth most-valuable corporation in the world.

"By the time data gathering was completed, most of the major customers of Nortel from 1997 to 2009 had been interviewed," says Jonathan Calof, lead researcher and a professor at the Telfer School of Management. "We interviewed CEOs and several senior officers who were in the room when Nortel decided to file for bankruptcy protection. Our interviews also included 48% of Nortel's officers who had been with the firm at some point between 1997 and the filing decision."

Why were all these people willing to share their stories and experiences? It's clear that many were touched by the failure of this great Canadian company and wanted to help students and others learn from their collective experience.

The demise of Nortel

Failure is complex. With Nortel, it took a combination of many factors, such as a changing business environment, poorly aligned strategies, management decisions that had catastrophic implications for the future of the company and information systems out of step with business needs. Failure is temporal, and for Nortel, it occurred over a number of years. Nortel had underlying problems that began even before 1997, the start of the study period. In 2009, Nortel filed for bankruptcy protection in order to re-group and re-focus.

The study identified three broad factors as reasons for the demise of Nortel:

External business environment. There were several changes in the marketplace—it had become more competitive, less attractive and far less profitable. Without these changes, the Nortel story would have been very different. But Nortel misread the market and was ill equipped to respond to increased competition, the accelerating rate of technological change and the shift in power to customers.

The black cloud. Key customers no longer believed that Nortel would be around in the long term to fulfill their R & D and support requirements.

Lack of resilience. Nortel's strategy, structure, poor financial management, business processes, people and culture decreased the company's ability to adapt to disruptions in the business environment, such as global recessions and increased competition.

What can we learn from this?

The events at Nortel raise some important questions. Should boards fulfill more than just a monitoring function? Or should they adapt to emerging situations, be more proactive and show entrepreneurial leadership when times are challenging? Nortel's experience offers valuable lessons for advancing corporate theory, for emphasizing the limits of the bare monitoring function of boards of directors and for having adaptive boards that can better cope with challenges arising from leadership problems and the external environment.

Over 100 lessons were learned through this study. Here are the key ones.

- In thinking about how one wants to grow a business, make sure strategy and culture are aligned.
- In a fast-moving environment, one has to maintain situational awareness on customers, competitors and the market.
- Understand your competitive advantage and protect it.
- In a technology-driven company, senior management needs to listen carefully.
- When it comes to customers, one needs to strike a balance between meeting their current requirements and future needs.
- Watch the bottom line, not just in bad times but also in good times.
- Boards are the last line of defence and as such should make evidence-based decisions.
- Customers pay attention to how suppliers behave.
- Business leaders need to know when and how to shift their own corporate culture.
- Manage the 'business,' especially during crises.
- Knowing when to retrench is essential in rebuilding resilience and in reducing and eliminating a black cloud of customer doubt.

"Hundreds of people put their faith in our team by telling their Nortel stories in the hopes that they would help us learn lessons and contribute to minimizing or preventing future corporate failures," says Calof. "It's our hope that this research will aid in educating tomorrow's leaders."

This is more than a Nortel story. It's a story about corporate failure.

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