Case Study: Change Management & Leadership at Microsoft

Written by:
Prof. Dr. Marcus Schögel
Mauro Gotsch
Content

Background................................................................................................................................................... 1
Innovative from the Start? The Era Bill Gates .......................................................................................... 1
Microsoft and Steve Ballmer ..................................................................................................................... 2
New Mission, New Momentum ............................................................................................................... 4
  Customer Centricity and Microsoft................................................................................................... 4
  Changing the Culture at Microsoft....................................................................................................... 5
  Leadership at Microsoft ........................................................................................................................ 6
Nadella in Numbers.................................................................................................................................... 7
Lobbying, Washington, Trump and TikTok-Dances ................................................................................ 8
The Future – Clouds, AI and Holograms .............................................................................................. 9
Microsoft and the Coronavirus ............................................................................................................... 10
Assignment ................................................................................................................................................ 12
Sources .......................................................................................................................................................... ii
Introduction to Marketing Management 2020

Case Study Microsoft

Background

Microsoft was founded in 1975 by Bill Gates & Paul Allen and is headquartered in Redmond, USA. Microsoft’s core business lies in the development of software and services, but it also produces a number of hardware products. The hardware segment comprises of the Surface series, the Xbox gaming consoles and PC accessories. The software & service segment includes everything from operating systems, server solutions, video games, mixed reality applications, development tools, various applications, cloud solutions, advertising tools and much more (Microsoft, 2019). In 2018, the company counted over 131’000 employees worldwide and had a net revenue of USD 8.9bn (Microsoft, 2018). The market capitalization of the company at the end of 2018 was USD 779.7bn – making it the most valuable public U.S. company (Novet, 2018).

Innovative from the Start? The Era Bill Gates

While Microsoft had existed since 1975, its meteoric rise started with its entry in the operating systems business in 1980 (Dyar, 2002). The then small firm got the contract from IBM to produce DOS and was luckily able to hold on to the rights of the operating system afterwards. Because of the free software selection on MS-DOS, Microsoft quickly became the leading PC operating system vendor on the market. There exists some debate, whether Bill Gates actually had the foresight to see the potential in his product or whether he was just a “talented hacker” who happened to be at the right place and in the right time (Manes & Andrews, 1993). Nevertheless, Microsoft was amongst the first companies to recognize the potential in a technological platform able to accommodate a large number of standardized software products as opposed to the then more lucrative custom software solutions (Cusumano, 2009). In 1990, Microsoft launched its “Office” software suite, a line of applications as well as the updated OS Windows 3.0. Both products went on to earn a “jaw-dropping” success in the market, with MS Office reaching a 96% share of retail suit sales (McCracken, 2000).

During his time as Microsoft’s CEO, Bill Gates was effective in recognizing and capitalizing on current trends in the tech industry. His now famous internal letter on “The Internet Tidal Wave”, in which he urged the entire company’s efforts to “assign Internet the highest level of importance” proved this talent (Gates, 1995). However, while Microsoft had the talents and capital to exploit such trends, the company was never able to reliably anticipate them. Internet computing back then was led by Netscape, internet search by Yahoo (and later Google), software-as-service by Salesforce, open-source computing by Linux and so forth (Cusumano, 2009).

Still – Microsoft’s and Bill Gates’ impact on the industry was immense. Gates was able to lead Microsoft through three major shifts in the industry: from character-based to the more user-
friendly graphical computing, from a specialized to a diversified software company and from largely operating offline to getting online quite early (Cusumano, 2009).

**Microsoft and Steve Ballmer**

After Microsoft founder Bill Gates stepped down as its CEO in 2000, he was replaced by his Executive Vice-President of Sales and Support, Steve Ballmer. Despite Gates staying in the company as Chief Software Architect, the tech giant’s stock plummeted dramatically following the announcement (Farber, 2013). This was not due to the company suddenly being unprofitable. During his tenure from 2000 - 2014, Steve Ballmer managed to contribute to the company’s profitability and increased the net income by 215% to USD 23bn (Vance, 2012). However, while Ballmer succeeded in protecting Microsoft’s core market, the company failed to keep up with the rapid expansion of its “creativity-driven competitors” Google and Apple (Dhillon & Gupta, 2015, S. 55). Microsoft’s Zune failed to take on the iPod (Rosoff, 2012) and Bing could not compete with Google (GlobalStats, 2019). This perceived lack of innovation was reflected in the company’s stock price.

![Illustration 1 Microsoft’s stock price in USD under each CEO (Macrotrends, 2019)](https://bit.ly/1IBQJoY)

**Relevant Videos:**
Additionally, the unpopular “stack ranking” performance management system led to the bottom 10% of the company constantly being labelled as “underperformers” – regardless of how much they contributed to the company in total (Ovide & Feintzeig, 2013).

These factors combined with Ballmer’s narrow vision for the future led to Microsoft’s product development starting to lag behind the competition. As a consequence, many talented employees left the company to join the more forward-thinking companies (Olster, 2011). This decline was first felt within Microsoft’s culture, as it became increasingly narrow-minded and unwieldy – which in turn led to the internal competition boiling over into open hostility (Brass, 2010).

The teams started considering themselves as “responsible for the division’s growth and not for the organization’s growth as a whole” (Dhillon & Gupta, 2015, S. 58). Innovative products such as the “Courier” tablet were cancelled for not serving the Windows business (Carlson, 2010) and divisions like the Xbox-gaming segment gradually isolated themselves from the rest of the company (Weinberger, How the original Microsoft Xbox project “pissed off” Bill Gates because it didn’t improve Windows, 2015).

During the following years, Steve Ballmer was repeatedly voted as one of the world’s tech CEO’s with the lowest employee approval ratings (Kingsley-Hughes, 2011). Hence, the time
he served as CEO became popularly known as the “lost decade” for Microsoft (Eichenwald, 2012).

**New Mission, New Momentum**

Satya Nadella was formally introduced as the CEO of Microsoft on February 4, 2014. He started his first day on the job amongst worrying news. Quarterly PC shipments were at that time around 70 million, while over 350 million smartphones were sold at the same time. Hence, Both Apple and Android operating systems were expanding rapidly. Microsoft’s core market, which had stood strong since its foundation, was suddenly being threatened. It was therefore not surprising, that at an internal poll at Microsoft, most employees thought the company was headed in the wrong direction (Nadella, Hit Refresh: The Quest to Rediscover Microsoft's Soul and Imagine a Better Future for Everyone, 2017). Thus, Nadella (2017) set himself the following goals for turning the company around and reaching his vision of “One Microsoft”:

- “Communicate clearly and regularly our sense of mission, worldview, and business and innovation ambitions.
- Drive cultural change from top to bottom, and get the right team in the right place.
- Build new and surprising partnerships in which we can grow the pie and delight customers.
- Be ready to catch the next wave of innovation and platform shifts. Reframe our opportunity for a mobile- and cloud-first world, and drive our execution with urgency.
- Stand for timeless values, and restore productivity and economic growth for everyone.”

### Relevant Videos:

- **Who is Satya Nadella?:** [https://bit.ly/31OgL5B](https://bit.ly/31OgL5B)
- **Why Empathy is the Key to Innovation:** [https://bit.ly/2ZgiPl0](https://bit.ly/2ZgiPl0)
- **Microsoft CEO Satya Nadella – How I work:** [https://bit.ly/1WPXqKV](https://bit.ly/1WPXqKV)

**Customer Centricity and Microsoft**

As a first step to prepare the company for Nadella’s mobile and cloud-first strategy, Microsoft made “the Office you love” available on all iOS devices only two months later (Case, 2014). This demonstrated to the market and customers, that Microsoft had learned to look beyond its own operating systems and was willing to support customers on whatever device they were using. Combined with their cloud solution Azure, Nadella aimed at creating a seamless experience across all Microsoft products – regardless of device. In an interview, he further explained his reasoning and why customer centricity and empathy go hand in hand:
“Empathy is what it’s all about, super-important for us in our core business. The intuition is pretty straightforward: What does Microsoft have to do to stay relevant? We have to meet the unmet, unarticulated needs of the customers. That’s the source of innovation. So, if there’s anything that we’ve got to make sure each day, each week, each year that we do is to be in touch. The challenge is you can’t just say, ‘Let me listen to customers.’ You’ve got to be much more of an active listener. You can’t switch on this button called the empathy button and say, ‘Well, now I am going to listen to customers.’” (Murphy, 2017)

Nadella continued his reorganization efforts to create a “more nimble, communicative, collaborative, and decisive and motivated” (Dhillon & Gupta, 2015, S. 60) company. He also used this opportunity to strengthen ties with the Silicon Valley and generally being more open to collaborations. So, 15 years after Steve Ballmer cursed the open-source Linux as “a cancer that attaches itself in an intellectual property sense to everything it touches” (Greene, 2001), Microsoft joined the Linux foundation. Since then, Microsoft has been opening itself up to the open-source idea - becoming the top contributor of open source code on Github – eventually even purchasing the platform in 2018 (Hoffa, 2017).

Finally, Nadella pushed for Windows 10 to become the company’s universal platform – able to run all Windows apps on all devices using the OS. Thus, diminishing the internal competition between product-development teams (Branscombe, 2014).

**Changing the Culture at Microsoft**

In an article promoting his then upcoming book “Hit Refresh”, Satya Nadella emphasized the importance of culture and his in role shaping it: “The CEO is the curator of an organization’s culture. Anything is possible for a company when its culture is about listening, learning, and harnessing individual passions and talents to the company’s mission. Creating that kind of culture is my chief job as CEO.” (Nadella, 2017a). To facilitate these changes, the stack-ranking performance management system - responsible for the low morale within the teams - was abolished. More influence was given to individual managers, allowing them to more freely cooperate or innovate their products. The new performance system should produce less “brilliant jerks” and instead focus on a more open culture, where “people of all genders and ethnicities can contribute” (Bort, 2019).
Illustration 4 Microsoft’s Culture Change under Satya Nadella (own illustration)

To this end, Nadella invited 180 Microsoft executives and their families to an offsite event. The goal: to debate and create the culture mindset of Microsoft going forward. Together, they defined three core pillars for the future of the company:

- **“Customer-obsessed.”** We will learn about our customers and their businesses with a beginner’s mind and then bring solutions that meet their needs. We will be insatiable in our desire to learn from the outside and bring that knowledge into Microsoft, while still innovating to surprise and delight our users.

- **Diverse and inclusive.** The world is diverse. We will better serve everyone on the planet by representing everyone on the planet. We will be open to learning our own biases and changing our behaviors so we can tap into the collective power of everyone at Microsoft. We don’t just value differences, we seek them out, we invite them in. And as a result, our ideas are better, our products are better and our customers are better served.

- **One Microsoft.** We are a family of individuals united by a single, shared mission. It’s our ability to work together that makes our dreams believable and, ultimately, achievable. We will build on the ideas of others and collaborate across boundaries to bring the best of Microsoft to our customers as one. We are proud to be part of team Microsoft.” (Bishop, 2015)

**Relevant Videos:**
- On creating a culture that fosters ideas: [https://bit.ly/2wW3mJ2](https://bit.ly/2wW3mJ2)
Leadership at Microsoft

Nadella paid attention, that his three pillars were not only upheld internally, but also in the eye of the public. For example, the head of Microsoft’s Xbox had to publicly apologize, after one of their events at the Game Developers Conference featured performances by female go-go-dancers – flying in the face of Microsoft’s inclusiveness focused message (BBC, 2016).

Additionally, Nadella tried, in his own words, “to listen to as many of his employees as possible”:

“I heard from hundreds of employees at every level and in every part of the company. We held focus groups to allow people to share their opinions anonymously as well. Listening was the most important thing I accomplished each day, because it would build the foundation of my leadership for years to come. To my first question, why does Microsoft exist, the message was loud and clear. We exist to build products that empower others. That is the meaning we’re all looking to infuse into our work. I heard other things as well. Employees wanted a CEO who would make crucial changes, but one who also respected the original ideals of Microsoft, which had always been to change the world. They wanted a clear, tangible and inspiring vision. They wanted to hear more frequently about progress in transparent and simple ways. Engineers wanted to lead again, not follow. They wanted to up the coolness. We had technology the press would fawn over in Silicon Valley, such as leading-edge artificial intelligence, but we weren’t showing it off. What they really demanded was a road map to remove paralysis.” (Nadella, 2017).

Moreover, Microsoft leaned towards a growth mindset promoting continuous learning and to “take risks and move quickly when mistakes are made.” (Weinberger, 2017). Another change within the organizational structure of the company included tearing down silos and proving Cornet’s (2011) caricature to be outdated. As Steve Ballmer, the former CEO put it, “Microsoft’s old structure was more like a baseball team, in which players independently make many decisions. The new structure is more like football, in which a huddle of the team is required and individuals get specific instructions to follow.” (Patel, 2017).

Nadella in Numbers

More than five years after Nadella’s takeover as Microsoft’s CEO, the stock prices had consistently grown - from 2012-2016 from an initial value of $30.59 to $68.78 in Q2 of 2017 (Dhillon & Gupta, 2015). Additionally, the continuously improving financial performance could also be traced back to increasing the R&D budget from USD11.4bn to USD12bn between 2014 and 2016 (Microsoft, 2016). This allowed them to further diversify their portfolio and address the shifting customer needs.
As an example: the Microsoft Surface Book was tactically marketed to a niche audience and managed to close a gap with its 25% market share in Q4 of 2016 (Microsoft, 2016). Microsoft’s strategic turnaround and Nadella’s immediate drive into topics like AI and cloud-based computing ensured its adaption to the innovation-hungry market. The resulting diversified portfolio has ensured that its reinvention would result in a sustainable competitive advantage with long-term growth.

Overall, Microsoft’s robust financial performance as well as their paradigm shift has revived their credibility as an innovative and creative company. This in turn has restored the confidence of its investors and even the developer community as whole.

Illustration 5 Microsoft’s Acquisitions behavior (Levy, 2018)

**Lobbying, Washington, Trump and TikTok-Dances**

For a long time, Microsoft under Bill Gates refused to play the lobbying game of Washington; keeping virtually no lobbying presence in the political capital of the USA (Kinsley, 2011). However, over the course of the 90s, Microsoft’s reputation worsened within the congress as it was “demonized” for creating a de-facto monopoly and being sued by the Department of Justice (DOJ) for antitrust violations (Broder & Brinkley, 1999). As a response, Microsoft increased its presence in Washington, hired its first in-house lobbyist in 1995 and started to rapidly increase its lobbying budget to over $3.74 million in 1999, doubling the previous year’s effort (Broder & Brinkley, 1999). However, these efforts were perceived as being too blunt and did not manage to stop Microsoft being “pummeled in public”. While the demand by some federal judges for the company to be broken up was ultimately fend off, Microsoft was still required to stop all retaliation against other industry actors who use non-Microsoft software – a decree that was originally slated for five years but was extended repeatedly. This antitrust
legal battle “had an inhibiting affect on Microsoft” for years to come, stopping them from competing effectively with their less supervised competitors Apple and Google (Bartz, 2011). To this day, antitrust probes into the tech-firms follow the same argument as back then: if a platform has grown sufficiently large enough to encompass a market (as Windows OS had back then), refusing access to other developers constitutes as monopolistic tampering with market competition.

Under Steve Ballmer the company tried to strike a calmer tone – by shifting the attention of antitrust laws towards Google – using both public campaigns (such as the infamous “Scroogled” campaign) as well as using opposition research to be given to lawmakers. However, most of these efforts bore little success, with regulators deciding in 2013 not to bring antitrust charges against Google (Weise & McCabe, 2020).

After Satya Nadella took over (himself a son of an Indian civil servant), he insisted on a more “principled approach” to lobbying, methodically pursuing strategically important policies. Instead of using blunt force or public campaigns, a trusted network of lobbyists, regulators and lawmakers was slowly built. By-partisan and feel-good policies such as a push to expanding broadband access to rural areas or giving wireless frequencies up for internet usage were successfully pushed. However, this newfound network was also used to attack rivals, such as fighting a 10 billion government cloud-computing contract, which was seen as favoring Amazon (Weise & McCabe, 2020).

The latest lobbying effort illustrating Microsoft’s newfound influence in Washington is the ongoing talk of buying the social media app TikTok. Microsoft had been pursuing this deal without much fanfare for a while now – looking to build itself a platform which could be used to research youth trends and could be easily integrated with Microsoft’s Xbox ecosystem. However, the deal became a lot more complicated after President Trump expressed strong concerns about TikTok and national security, due to the app’s Chinese origin and backing – threatening to ban the social media app throughout the USA (Isaac, Swanson, & Haberman, 2020). Microsoft’s reaction was immediate, spreading the message amongst lawmakers, that TikTok would be safe Microsoft’s hands. Only 48 hours later, Satya Nadella had a phone call with President Trump – resulting in his public blessing for Microsoft to continue with the acquisition talks (Weise & McCabe, 2020).

The story shows the company’s long-game approach – even when it comes to lobbying. Microsoft spends with $10.3 million in federal lobbying; considerably less than Amazon, Facebook or Google. The nature of the company’s influence has become personal, building strong relationships with lawmakers and insiders using non-controversial and feel good issues, such as Melania Trumps anti-cyberbullying campaign (Weise & McCabe, 2020). The outcome of the

**Relevant Videos:**
- How Microsoft’s antitrust fight reshaped the internet: [https://cnb.cx/31NC8a7](https://cnb.cx/31NC8a7)
potential acquisition of TikTok while show, if this strategy pays of and if Microsoft will be able to fend off antitrust scrutiny during the coming years.

The Future – Clouds, AI and Holograms

Under Satya Nadella, Microsoft has turned over a new leaf towards a more customer focused, inclusive culture. Yet, the company is still very much in the process of restructuring itself. So far, Nadella’s mantra of “mobile first, cloud first” seems to have stuck. Last summer (2019), Microsoft announced its intention to deepen its relationship with Samsung to take on Apple and cement its position in the mobile market. The goal is to integrate mobile workforces with their stationary desktops via the Azure cloud (Bradshaw, 2019). To this end, Microsoft has already included some comparatively simple AI solutions into their mobile office applications to boost their productivity (DeNisco-Rayome, 2018).

Like other tech-giants, Microsoft’s is betting on AI to be the future of all applications. Apart from using AI to support their products, Microsoft wants to make sure to keep Nadella’s promise of a “customer-obsessed” company. In 2018, the company published a book about AI’s possible role in the society of the future: urging companies to be careful with AI development and anticipating negative impacts (e.g. on the workforce) ahead of time (Microsoft, 2018). In the corresponding blogpost, Smith & Shum (2018) state Microsoft’s goal in relation to AI as follows:

“At Microsoft we’re working to democratize AI in a manner that’s similar to how we made the PC available to everyone. This means we’re creating tools to make it easy for every developer, business and government to build AI-based solutions and accelerate the benefit to society.”

Microsoft recently followed through on this ambitious declaration with a 1bn USD investment into the OpenAI research firm. Apart from helping the company to compete with Google AI, it will also give Microsoft’s partners a way to “get the boost they needed to accelerate AI/ML implementations”. This in turn will give Microsoft further insights, on how to create a so called “Artificial General Intelligence (AGI)” (Coles, 2019).

With their sizeable investments into mobile, cloud, AI, ML, blockchain and mixed reality products, Microsoft has ensured, that it will play a significant role in how these technologies are developed today. However, if Microsoft can keep its momentum going and successfully shape

Relevant Videos:
AI in Microsoft 365: https://bit.ly/2KKzQYE
AI, neural TTS and Holograms: https://bit.ly/2GrDkVo

Case Study Microsoft
the market while staying true to their mission of empowering its customers of tomorrow remains to be seen.

Microsoft and the Coronavirus

The current COVID-19 pandemic partially confirmed Microsoft’s current strategic direction. The cloud-based, multi-device collaboration and video conference software “Teams” more than doubled its userbase in just one month to 75 million active users. Additionally, the company saw a large surge of new users on GitHub and LinkedIn, while more people also found time playing Minecraft or Xbox. As Satya Nadella put it himself “We (as a society) have gone through two years’ worth of digital transformation in two months.” (Shapiro, 2020)

Microsoft has been quick to position themselves as the “digital first responders” during the pandemic. At the start of Microsoft’s annual partner conference “Inspire” this summer (2020), Satya Nadella opened with a speech about how every nation was faced with “global problems” and how Microsoft and its partners played a big part “at the frontlines of this crisis, from health care, to education to the public sector”.

An emphasis was placed on how the company is able to take responsibility in society, due to being a central player in the tech-ecosystem; both strengthening themselves and all the firms working together with them (Microsoft, 2020). Satya Nadella wants Microsoft to be the architect of the post-COVID, almost fully digitalized world – yet he also knows, that they can’t do so without the ecosystem of partners they have built.

Relevant Videos:
Microsoft tells workers to work from home: https://bit.ly/3lG8Di8
Assignment

The goal of this exercise is to understand the complex interaction between marketing and leadership. The case presented asks students to evaluate the last 20 years of the American multinational technology company Microsoft through this lens. The students are tasked with applying their knowledge of the “ideal marketing management process” (Tomczak, Reinecke, & Kuss, 2018) from the mandatory reading of the course, to the case at hand. Specifically, the contrast between Microsoft’s strategy under its previous CEO Steve Ballmer and under the current CEO Satya Nadella should be highlighted.

The students’ task is to answer and elaborate on the following questions:

1. Summarize the previous (under Steve Ballmer) and current marketing strategy (under Satya Nadella) Microsoft is / was pursuing. Use the marketing planning model of Tomczak et al. as a basis to describe these strategies and their differences.

2. What leadership style best describes Satya’s understanding of leading a company? Gather evidence (and artifacts) for the leadership style of S. Nadella and discuss the effectiveness of his actions.

3. How does and did the two CEO’s leadership impact the strategic alignments analyzed above in question 1? Where do you see the strongest connections between leadership challenges and customer centric actions (and vice versa)?

4. Please prepare a presentation of 7 minutes to demonstrate your findings. You are explicitly asked to choose an appropriate presentation technique beyond PowerPoint – be creative!
Sources


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