
Microsoft after Satya Nadela: from stagnation to rebirth

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Microsoft today is a company on the rise, with its reach ever-expanding into new industries. But less than a decade ago, Microsoft had a very different image, one of stagnation, bureaucracy, and decline. The recent reinvention of the company has been a lesson for the history books and a huge credit goes to its current CEO Satya Nadella and his vision. When Mr. Nadella took over as CEO in 2014, Microsoft was seen as a company whose best years were behind it. Toward the end of his predecessor Steve Ballmer's term, pressure was mounting on the company to come up with a roadmap that would place it among the most dominant technology companies once again. This was a time when Microsoft was struggling to shape a future that moved away from its dependence on the Windows operating system, which served it well during the years of the personal computer boom. Times had, however, changed.

For most of Microsoft's history, it was Bill Gates who was at the helm. It was under his guidance that Microsoft first conquers the operating system market, and in fact, he was so successful that the US government almost broke Microsoft up. But after 25 years of leadership, Bill eventually stepped down, and the man he chose to replace him, well, he had a much more different vision for Microsoft. Steve Ballmer was not a technology guy, even though he was the 30th employee hired at Microsoft and had been around for decades. He had worked in departments like business management and sales. In Steve's eyes, it was these departments that were responsible for Microsoft's success and so he did his best to reorganize leadership around the business people instead of the technology people. Steve wanted to break up the technology fiefdoms, which in his view were spending ridiculous amounts of money trying to develop new technology without any idea whether it would be beneficial to the dominance of Windows in the PC world. Steve saw that Windows worked and he tries to promote it as much as possible. That's why the biggest move in his career was attempting to spread Windows to the mobile market, first through Windows Mobile and then Windows Phone.

In many ways, Steve was continuing the philosophy Bill Gates had adopted two decades earlier: an aggressive expansion and an outright war against competition. Unfortunately, Microsoft was too late in the smartphone game as giants like Apple, Blackberry and Nokia had already taken over, so Steve's dream of making billions by selling phones never materialized. Even though Microsoft's revenue increased during this period, the loss of the smartphone market was just too much.

These years under Steve became a lost decade for Microsoft, and in 2014 when he announced his resignation, the stock jumped 7% on the news; that's how badly investors wanted him to go away.

The biggest question then became who would be his successor, and everyone naturally assumed Microsoft would hire someone external to reshape the company, to bring it back on the path of innovation. The answer, however, was exactly the opposite. Not only was the new CEO a longtime insider Microsoft, but he was also the leader of one of the divisions Steve Ballmer himself created.

Satya Nadella had been around in Microsoft since 1998, and a decade later when Steve Ballmer announced the creation of Microsoft's enterprise division, Satya became its executive vice president. The immense success of Amazon's cloud business convinced Microsoft's board that they should work in that direction as well, and who better to execute that plan than the man in charge of Microsoft's own cloud efforts. When Microsoft announced that Satya Nadella would be the new CEO, the entire world was confused. A rather unknown executive becomes the CEO of Microsoft, and unsurprisingly, there is a lot of skepticism around the decision. But then something almost magical happens: the stock starts climbing up after a decade of stagnation and Microsoft's cloud computing platform, Azure, starts growing rapidly and becomes incredibly profitable.

When Satya took over from Steve, Azure had been in development for over six years, and the enterprise division, which is now the bread and butter of Microsoft, had been profitable even during Steve's time. Ironically, even though during Steve's leadership the stock price didn't move, Microsoft's net income more than tripled. So Microsoft's rebirth at the hands of Satya isn't an economic one. The fact of the matter is that Microsoft was wildly profitable before and continued being so after. Microsoft essentially did a 180-degree turn on its philosophy. It not only embraced open source development but actively started supporting it, so much so that one of Satya's biggest moves was to acquire GitHub.

In the eight years since taking over, Mr. Nadella has been widely acknowledged for the revival of Microsoft's fortunes. It is once again one of the most valuable companies in the world today. According to current prices, it is in fact No. 2 in terms of market capitalisation just behind Apple and just ahead of Amazon. Its market capitalisation is within a striking distance of \$2 trillion.

What Mr. Nadella did was not just move away from the Windows past but also build and fund future businesses such as cloud computing. Two years ago, a Bloomberg Businessweek article, with the title ‘The Most Valuable Company (for Now) Is Having a Nadellaissance’, wrote: “Under Nadella, it cut funding to Windows and built an enormous cloud computing business — with about \$34 billion in revenue over the past year — putting it ahead of Google and making progress in key areas against the dominant player, Amazon Web Services”. In fact, the article says, “His first email to employees ran more than 1,000 words — and made no mention of Windows.”

What Satya did achieve was a philosophical rebirth, and while that might not sound nearly as impressive, it’s actually just as important. When Satya took over, Microsoft was suffering from decades of bad reputation, which was honestly very much deserved. From anti-competitive practices to suppression of open-source development, there were very few people saying nice things about Microsoft in 2014. And yet, the reorganization Satya enacted after he took over had an incredible effect.