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Enhancing Innovation Through Organisational Learning and a Culture of Empathy:

Microsoft under CEO Satya Nadella

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In early 2018, Satya Nadella, the third CEO of Microsoft (after Bill Gates and Steve Ballmer) was reflecting on the transformation of the company he had led since February 2014. Six months earlier (July 2017), the share price had risen by 19%, outpacing the 10% rise in the S&P500.[1] Lauded by employees for renewing the company culture, he had a 96% approval rating on glassdoor.com and was the highest rated CEO in 2017.[2] Yet he wondered whether the improvements had gone deep enough to be sustained or would vanish when he stepped down. Would they improve Microsoft's innovation capability and financial performance in the long term, or simply prove to be cosmetic changes?

On the Road to Insignificance

By 2014, many analysts assumed that Microsoft was on the road to insignificance, having been overtaken by Google, Apple, Facebook, Amazon – and just about everyone else – in terms of innovation. Having itself displaced the giant IBM with the shift from mainframe computers to PCs, Microsoft had subsequently missed every major innovation trend in the 21st century. Some suggested that Ballmer had been over-reliant on Windows' profitability and was blind to anything consumer oriented.[3] In 2013, the *New Yorker* opined that [Microsoft's] "innovations alienated people" as they had "embraced complexity in product design just as everyone was turning toward simplicity." [4] While revenues and net income had increased, the share price had dropped dramatically (see Figure 1). Meanwhile, Apple's had increased more than 20 times.[5]

Figure 1: Microsoft Key Financials under CEO Steve Ballmer
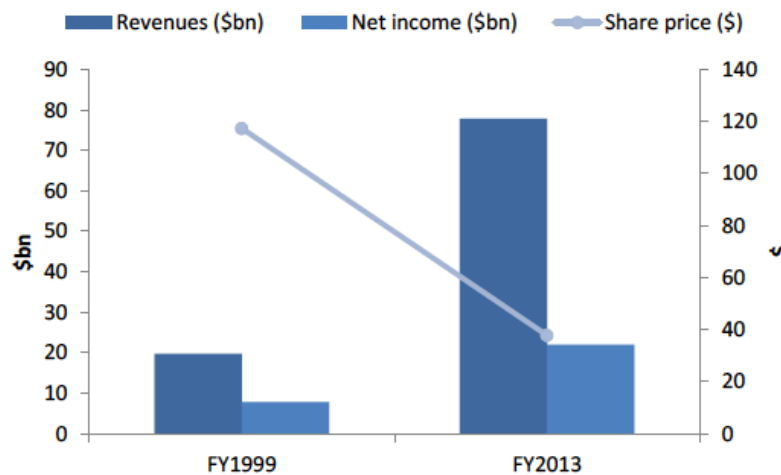
Source: Marketline, Microsoft Annual Reports

A Series of Missteps

Microsoft's meteoric rise stemmed from developing software for PCs. Bill Gates' original vision was to 'democratize' technology – to put a PC on every office desk and in every home, driven by Windows operating system and Microsoft Office software. In the early days, Windows was a cool

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1   Dina Bass, *Microsoft Regains Turnaround Momentum on Strong Cloud Growth*, Bloomberg.com, July 20 2017.
2   *Microsoft Reviews*, Glassdoor.co.uk (accessed March 14 2018).
3   Gary Rivlin, *The Problem With Microsoft*, Fortune.com, March 29 2011.
4   Nicholas Thompson, *Why Steve Ballmer Failed*, New Yorker, August 23 2013.
5   Gary Rivlin, *The Problem With Microsoft*, Fortune.com, March 29 2011.

product and every new release was eagerly awaited. Microsoft Office was ubiquitous (in the home and the office).

Its two cash cows were so dominant that one analyst referred to the "incontestable law" that Microsoft did everything to strengthen Windows to the detriment of other innovations. Employees who suggested innovations with an alternative focus were accused of attempting to "f*** the Windows strategy" by Gates, and later Ballmer,[6] who reportedly referred to Linux open-source operating system as a "cancer". A team from the Technology division had developed an e-book device in 1998, but it was rejected by Gates as the user interface didn't look like Windows.[7] Less than a decade later, Amazon would rule the e-book market with the Kindle e-reader.

Another failure was the 2010 'Courier' tablet, with an icon-rich touchscreen designed by the Entertainment and Devices division, which borrowed from Windows but had a new operating system. This could have enabled Microsoft to make inroads into mobile computing, but senior leaders deemed it unnecessary (although parts of the system would later be implemented into Windows 8 and 9). That same year, Apple launched the iPad, one of the most successful consumer products in electronics history.[8] Microsoft's ultimately launched an alternative tablet, called 'Surface', in 2012, by which time Amazon, Google and others had carved up the market.

Stubbornly dependent on PC software as the world moved towards mobile, Microsoft's approach to innovation was not to lead but to wait, despite the potential of the prototypes it developed internally. By the time Microsoft launched a product it was impossible to catch up – consumers had already made up their minds. This was true of its Zune music player vs Apple's iPod; Windows phones vs the iPhone or Samsung and other Android devices; and Bing search engine vs Google. Kurt Massey, a former Microsoft senior marketing manager, described Microsoft as "technology's answer to Sears":[9]

> In the 40s, 50s and 60s, Sears had it nailed. It was top-notch. But now it's just a barren wasteland. And that's Microsoft. The company just isn't cool anymore.

Another product that backfired was the 2010 mobile phone Kin, targeted at 'tweens' (aged 9-12), which was not only expensive but lacked popular apps like instant messaging, the ability to play YouTube videos or purchase games online. Having spent more than $1 billion, Microsoft pulled the phone 48 days after launch.[10]

Despite developing an early mobile interface, Microsoft missed the mobile trend. In 2010, when Ballmer spoke at Microsoft's Worldwide Partner Conference of a "lost generation" of users, he was referring to mobile. Shortly after, a global equities analyst downgraded Microsoft's stock predictions, saying that its failure to connect was broader and even encompassed Windows.[11] Given the choice, employees preferred to work on an Apple Mac. A similar trend was seen among students.

One exception was the Xbox games console, which sold more than a million in the first three weeks after its US launch in November 2001. Xbox Live (released in August 2002) allowed gamers

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6   *Microsoft at middle age: Opening Windows*, The Economist, April 4 2015.
7   Kurt Eichenwald, *Microsoft's Lost Decade*, Vanity Fair, August 2012.
8   Craig Timberg, *Ballmer's Departure will Follow Years of Missed Opportunities*, The Washington Post, August 24 2013.
9   Kurt Eichenwald,Ibid, 2012.
10 Gary Rivlin, *The Problem With Microsoft*, Fortune.com, March 29 2011.
11 Rik Myslewski, *Ballmer's 'lost generation' note finds resonance*, Theregister.co.uk, August 5 2010.

to play with anyone across the world. Subscribers grew exponentially, including over 150,000 in the first week.[12]

Bloated and Bureaucratic

As a start-up, Microsoft had been a dynamic, exciting firm where programmers worked all hours towards a common vision. But with success came scale; with more employees came more managers, more meetings, more procedures, more bureaucracy. This didn't completely stifle innovation but slowed it down, as former marketing manager Ed McCahill explained:[13]

> *They had a great lead [with Windows CE mobile devices], they were years ahead. And they completely blew it… They completely blew it because of the bureaucracy.*

The Haves and Have Nots

Its initial success in the 1990s attracted employees, as did the stock options, which meant that as the company grew more successful, early employees got rich, incentivizing them to work together to drive revenues higher. The share price followed suit. However, long-serving employees who cashed in their options were seen by new hires as being content to distribute the work among subordinates and wait for their next options to vest – a pattern dubbed 'rest and vest' – although the newcomers still believed they too would get rich.

With the dotcom crash in December 1999, Microsoft's share price tumbled, never to return to its former heights. Internally, this accentuated the division between the 'haves and the have nots'. For the latter, stock options were no longer a way to get rich; promotion was. A former employee explained the implications of the change:[14]

> *People realized they weren't going to get wealthy. They turned into people trying to move up the ladder rather than trying to make a big contribution to the firm.*

As the company began to cut costs in the form of office equipment and supplies (like free towels in the office showers) angry employees protested. Another inducement to work for Microsoft, its health insurance plan, ended. It was now just another run-of-the-mill employer.

Divisions, Fiefdoms and Politics

Staff divisions grew worse as the company became more bureaucratic and staff privileges dwindled. The animosity between the different parts of Microsoft in 2011 was captured in a cartoon (Figure 2), with the divisions pointing guns at each other.

Figure 2: Microsoft

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12   Rick Marshall, *The History of the Xbox*, digitaltrends.com, May 12 2013.
13   Kurt Eichenwald, *Microsoft's Lost Decade*, Vanity Fair, August 2012.
14   Kurt Eichenwald, *Microsoft's Lost Decade*, Vanity Fair, August 2012.

Source: Manu Cornet, http://bonkersworld.net/organizational-charts.
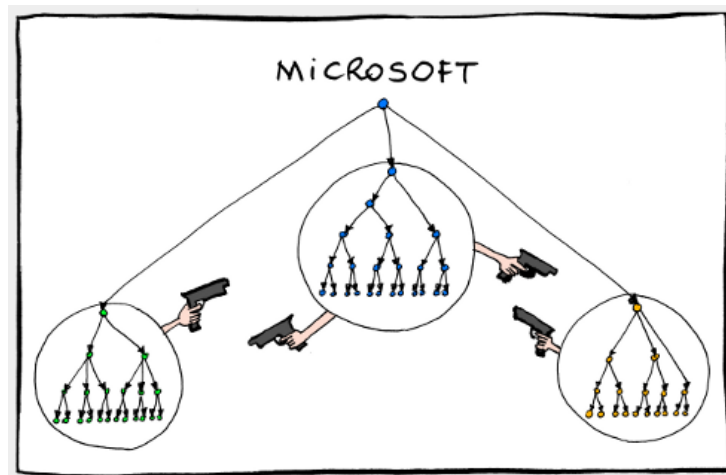
Infighting became the norm. A habit known as "licking the cookie" proliferated, whereby one division would announce it would be working on a feature or product (typically Windows), thus preventing other divisions from working on it.[15]

Meanwhile, the company continued to concentrate on Windows to the exclusion of other operating systems, even those developed in house. Steve Stone, who founded Microsoft's technology group, explained:[16]

> *We couldn't be focused any more on developing technology that was effective for consumers… Windows was the god – everything had to work with Windows. Ideas about mobile computing, with a user experience that was cleaner than with a PC, were deemed unimportant by a few powerful people in that division, and they managed to kill the effort.*

With promotion the only way to get ahead, people played office politics and collaboration gave way to competition. Particularly divisive was the recognition system, known as 'stack ranking' that forced employees into a bell curve from 'top to good, average, below-average, and poor'. Every employee in every team in every unit had to be ranked. Top performers got promotions and bonuses, while at the other extreme there were no rewards and even dismissal. It didn't matter if everyone on a team was a top performer; only two could be recognised as such, and at least one member's performance would be judged 'poor'.

As a result, star performers avoided working with other star performers. Worse, employees sabotaged each other's efforts to keep out of the lowest ranking. The short ranking cycle – every six months – further exacerbated negative behaviour, as one engineer admitted:[17]

> *People responsible for features will openly sabotage other people's efforts. One of the most valuable things I learned was to give the appearance of being courteous while*

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15   Gary Rivlin, *The Problem With Microsoft*, Fortune.com, March 29 2011.
16   Kurt Eichenwald, *Microsoft's Lost Decade*, Vanity Fair, July 24 2012.
17   Kurt Eichenwald, *Microsoft's Lost Decade*, Vanity Fair, July 24 2012.

withholding just enough information from colleagues to ensure they didn't get ahead of me on the rankings.

Team supervisors within a division would sequester themselves every six months to 'horse trade' ranking decisions so that the overall divisional numbers would match. Employees then sought to raise their profile with every other manager within the group. 'Visibility politics' permeated employee behaviour, shifting the focus from collaborative innovation to outsmarting others. One software designer remarked:[18]

> *People planned their days and their years around the review rather than around products. You really had to focus on the six-month performance rather than on doing what was right for the company.*

Employee surveys highlighted the problem to senior leaders, who were concerned that Microsoft was falling behind Apple and Google. Given its revenues and ability to attract top engineers, the company's failings didn't make sense. Despite the message that innovation was stymied by lack of collaboration, management fixes made did little to change the underlying behaviour.

It was not until November 2013 that the stack ranking was scrapped.[19] Henceforth, Microsoft would evaluate employees on how well they worked with each other. But for talented employees it was too little, too late. Low-ranked employees and executives had moved to Google and other tech start-ups, attracted by share options and a more entrepreneurial culture.

Satya Nadella – An Unlikely Choice

When Ballmer announced he would retire in August 2013, having started to restructure Microsoft, commentators said only an outsider could stop the decline. However, a 21-year Microsoft veteran was appointed to replace him. Satya Nadella had been running Microsoft's cloud computing platform Azure, a business worth a cumulative $5 million.[20] Critics greeted his appointment with scepticism, seeing him as the fall-back choice.[21]

Nadella was introduced as the company's third CEO on February 4th 2014. He described the company culture that he inherited in the following terms:[22]

> *The culture had been rigid. Each employee had to prove to everyone that he or she knew it all and was the smartest person in the room. Accountability – delivering on time and hitting numbers – trumped everything. Meetings were formal... and planned in perfect detail before… If a senior leader wanted to tap the energy and creativity of someone lower down in the organisation, she or he needed to invite that person's boss*

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18   *Ibid*.
19   Dina Bass, Jeff Green, *Microsoft Scraps Curved Rating System for Worker Reviews*, Bloomberg News, November 13 2013.
20   Dina Bass, Christopher Gregory, *Satya Nadella, Talks Microsoft at Middle Age*, Bloomberg News, August 4 2016.
21   Harry McCracken, *Satya Nadella Rewrites Microsoft's Code*, FastCompany.com, September 18 2017.
22   Satya Nadella, *Hit Refresh*, William Collins, 2017.

and so on. Hierarchy and pecking order had taken control, and spontaneity and creativity had suffered as a result."

From reading feedback from hundreds of employees, he concluded that the company was "sick", that its employees were tired and frustrated about falling behind other tech companies, and most alarmingly for the new CEO -

> *[Employees] came to Microsoft with big dreams but it felt like all they really did was deal with upper management, execute taxing processes and bicker in meetings. They believed that only an outsider could get the company back on track. None of the names on the rumoured list of internal CEO candidates resonated with them – including mine.*

Nadella had lived through the politics and infighting but considered them solvable, telling employees: "Renewing our company's culture would be my highest priority."[23] His appointment marked day 1 of Microsoft's transformation, with a rallying cry to become "mobile-first and cloud-first".[24] His approach was inspirational rather than dictatorial, appealing to a sense of purpose and pride in what employees were working on.[25]

Change from the Top

To make good on his promise for renewal, Nadella asked the senior leadership team (SLT) to read Marshall Rosenberg's "Nonviolent Communication", based upon an approach of compassionate collaboration. Legal office chief Brad Smith said:[26]

> *[It] was the first clear indication that Satya was going to focus on transforming not just the business strategy but the culture as well.*

Moving the weekly SLT meeting out of the boardroom to a more informal space with coaches, Nadella asked psychologist Michael Gervais, a mindfulness teacher, to facilitate sessions to enable the SLT to get to know each other on a personal rather than purely professional level. There was initial reticence to volunteer information. Nadella recounted the "fear of being ridiculed; of failing; of not looking like the smartest person in the room… we had grown used to hearing". [27]

But after initial reluctance, they slowly began to open up, sharing their passions, their struggles, and philosophy on life. When it was Nadella's turn, he described his personal journey to becoming CEO: [28]

> *I drew on a deep well of emotion… I had been thinking about my life – my parents, my wife and children, my work. It had been a long journey to this point. My mind went back to earlier days: as a child in India, as a young man emigrating to this country, as a husband and the father of a child with special needs, as an engineer designing technologies that reach billions of people worldwide, … even as an obsessed cricket fan who long ago dreamed of being a professional player. All these parts of me came*

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23   Dina Bass, Jeff Green, *Microsoft Scraps Curved Rating System for Worker Reviews*, Bloomberg News, November 13 2013.
24   *Satya Nadella: Mobile First, Cloud First Press Briefing*, Microsoft.com, March 27 2014.
25   Satya Nadella, *Hit Refresh*, William Collins, 2017.
26   Harry McCracken, *Satya Nadella Rewrites Microsoft's Code*, FastCompany.com, September 18 2017.
27   Satya Nadella, *Hit Refresh*, William Collins, 2017.
28   *Ibid*.

together in this new role, a role that would call upon all of my passions, skills, and values.

He emphasized how empathy had shaped him and how he had been inspired by the empathy of others, including high-school computer students who had helped his son with programming software that allowed him to flip through his music selection on his wheelchair. Another example was a project at Microsoft to give people suffering from amyotrophic lateral sclerosis (Lou Gehrig's disease) and cerebral palsy more independence through eye-tracking technology.

The emotionally exhausting day for the SLT was the first step towards creating a more unified senior team and the realisation that profound change and renewal would require everyone to work together to make it happen.[29] To ensure strong collaboration and avoid silo behaviour, henceforth they came together every Friday for a four-hour meeting and once a month for eight hours.[30]

Nadella faced several hard choices early in his tenure. He replaced members of the SLT when he took over. Ballmer's acquisition of Nokia's ill-fated mobile business (finalised as Nadella took over) proved to be a misstep, implying a massive write down. In July 2014, Nadella took the decision to make nearly 18,000 employees redundant, of which 12,500 had moved to Microsoft with the Nokia acquisition. He noted:[31]

> *The need for empathy [doesn't] take away your need for making hard calls, but you should carry out those decisions with empathy.*

Although the loss of talent was "heartbreaking",[32] there were lessons learned from the acquisition, such as the risks associated with buying a company with weak market share, not recognising Microsoft's strengths, and the need to focus on differentiated offerings. The latter would lead to a focus on developing a Windows phone that targeted corporates, with a range of apps for businesspeople. The layoffs were part of a plan to create a flatter management structure, simplify ways of working, and thus accelerate information flow, decision making,[33] and collaboration. Nadella explained:[34]

> *…our business processes and support models will be more lean and, with greater trust between teams. The overall result of these changes will be more productive, impactful teams across Microsoft.*

Some of the changes he made to the top 150 executives' annual retreat were not welcomed by the existing leadership. Although it was a showcase for new ideas, plans, and the latest technology, Nadella had noticed that 'fireside chats' were more about criticising other divisions than working together. A time-honoured tradition for the most senior leaders, the retreat would now become a catalyst for change.

Nadella invited the founders of companies that Microsoft had purchased the year before to the annual retreat. Most were far down the company hierarchy but came from the 'mobile-first, cloud-

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29   *Ibid*.
30   Shira Ovide, *Managing & Careers – Boxx Talk: the quiet evolution at Microsoft's office*, The Wall Street Journal, September 30 2015a.
31   Andrew Hill, *Can Microsoft's chief Satya Nadella restore it to glory?* The Financial Times, October 13 2017.
32   Satya Nadella, *Hit Refresh*, William Collins, 2017.
33   Elizabeth Heichler, Peter Sayer, *Update: Microsoft to lay off 18,000 in next year*, Computerworld.com, July 17 2014.
34   Alan Tovey, *Microsoft axes 18,000 jobs as new chief Satya Nadella integrates Nokia*, The Telegraph, July 18 2014.

first' world and he needed them to seed the change in the company's focus. A second addition was to schedule customer visits across the spectrum– from universities, schools, hospitals, not-for-profits, to small businesses and large enterprises – to get participants to consider new ways Microsoft could live its mission of democratising technology. A third change was to engage in dialogue about the culture change needed and brainstorm solutions, which was organised over dinner, with a random seating plan, with table leaders reporting the next morning to Nadella and Kathleen Hogan, Chief People Officer. Nadella described the outcome:[35]

> *I left the retreat inspired by those ideas, but more importantly I left inspired by the deep engagement and commitment I saw from these leaders. We knew we needed to build on this momentum, so we enrolled each of the table discussion leaders in a sort of culture cabinet – a group of trusted advisors and senior leaders who were committed to helping share and lead the culture change in every part of our company.*

Leadership Principles: Listening & Learning

Listening was a vital foundation of his leadership. He met with leaders, partners and customers early on in his tenure, and together with his team organised focus groups to hear from hundreds of employees across the company. Their feedback indicated that they wanted (i) a CEO who would make changes but respect Microsoft's original ideals; (ii) would frequently communicate what was going on; (iii) and would make Microsoft cool again.[36]

Nadella followed three leadership principles learned from playing cricket at school:[37]

- Compete vigorously and with passion in the face of uncertainty and intimidation – respect your competitors but don't be in awe of them.

- Put the team first, ahead of your own success or recognition.

- The importance of leadership for bringing out the best in others by bolstering their confidence.

Nadella drew upon his personal experience, from people he had interacted with, and from books. He admitted that he had not originally been an empathetic person but that the birth of his son Zain in 1996, with cerebral palsy, had made him re-evaluate his life:[38]

> *When I think about my son's birth, I struggled with it for, you know, not just like a few hours or days or weeks – for years.*

As a result of his experience with Zain in hospital surrounded by technology, and over the years how technology had helped Zain in his wheelchair to build a life, Nadella had a sense of purpose: to use technology not for its own sake but to help others achieve their goals. His family background and education in India had been formative, encouraging curiosity and pushing his own limits. This was the culture he wanted to foster at Microsoft:[39]

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35   Satya Nadella, *Hit Refresh*, William Collins, 2017.
36   Satya Nadella, *Hit Refresh*, William Collins, 2017.
37   *Ibid*.
38   Andrew Hill, *Can Microsoft's chief Satya Nadella restore it to glory?* The Financial Times, October 13 2017.
39   *Satya Nadella on his new book, stepping into Bill Gates' shows, and what Indian IT industry should do*, India Today, October 2 2017.

What I think was engrained in me was a sense of curiosity. The ability to look at things, opportunities given, and to assume that 'That's amazing.' I never remember at Microsoft any job that I had and felt, 'Oh god, this job is less important than the one I had.' I always felt 'This is the greatest job, it's the greatest opportunity, I'm so thrilled to have it.' It's some combination of my father, my mother, and their influence on me, which was a strange amalgam. But it did create that…there was never this thing about 'Oh, look for something next' as opposed to 'Take what you've got and really, really exploit it to its fullest to have the deepest impact.' That perhaps more than anything else has defined who I am.

He told the annual sales conference (15,000 people) why it was important to have a 'growth mindset' – not focused on the bottom line but on each individual's growth – and the importance of continuous listening and learning:[40]

We will grow as a company if everyone, individually, grows in their roles and in their lives… Our culture [needs] to be about realising our personal passions and using Microsoft as a platform to pursue that passion.

After the speech, he joined the audience who were watching a video in the darkened auditorium. Nadella could see that he had emotionally connected with them as some were wiping away tears. Three principles underpinned the growth mindset:

- Being obsessed with the customer – through insight and empathy.

- Actively seeking diversity and inclusion – enabling everyone's ideas to come through in meetings.

- Being 'one Microsoft' rather than a series of fiefdoms – a family of individuals united by a single, shared mission.

Clearly, to make these principles a reality, he could not sit in his office in Redmond:[41]

An empathetic leader needs to be out in the world, meeting people where they live and seeing how the technology we create affects their daily activities.

He toured customers and Microsoft offices across the world, including visits to schools and far-flung outposts such as a solar-powered shipping container in Kenya that served as an internet café, to listen and experience how customers used Microsoft offerings. Described as a "fabulous listener", people were drawn to his "niceness" and opened up, sharing their hopes and fears,[42] enabling intelligence-gathering in the form of customer insights. Ed Anderson, a Gartner analyst and ex-Microsoft, observed:[43]

Regardless of who was in the room, whether it was a senior VP or product manager, he would listen intently to what people had to say. I was struck that every opinion is important to him, every perspective is important… I think he really values multiple

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40   Satya Nadella, *Hit Refresh*, William Collins, 2017.
41   *Ibid*.
42   George Anders, *Nadella's Bid to Fix Microsoft: What Ballmer Didn't Dare*, Forbes.com, May 26 2014.
43   Greg Williams, *How Satya Nadella helped Microsoft get its groove back*, Wired UK, September 30 2017.

perspectives. You'll see this in the way he interacts with partners or customers. He's genuinely interested in what they have to say.

Nadella did make some mistakes, including a very public one at the Grace Hopper Celebration of Women in Computing conference, when asked what advice he would give to women who were uncomfortable asking for a pay rise or promotion. His response – to believe in karma and that the system would reward the asker eventually – prompted a backlash on social media that highlighted how men at Microsoft typically earned more than women in similar positions.[44]

Nadella admitted that he was angry with himself (for responding in this way) and emailed everyone at Microsoft, asking them to watch the video of him at the conference. He explained that he believed in closing the pay gap and encouraging women to work in technology. He later acknowledged in an all-employee Q&A that "any advice that advocates passivity in the face of bias is wrong"[45] and subsequently described his comment as "a nonsense answer from a privileged guy."[46] Discovering his own bias, he reflected, had increased his empathy with women.

Employees saw Nadella taking responsibility for his mistake and learning from it. Subsequently, the company's internal communications emphasised respect for diversity and combatting bias.[47]

Rejuvenating Innovation Through Culture Change

Previously, product decisions had been based on what Microsoft's competitors were doing. Nadella's new strategy was to develop products and services only if the company could offer something differentiated and unique:[48]

> *That sense of purpose has to inform the decisions on what we do… Technologies will come and go, but the sense of purpose will give us at least the direction and how we express our identity… I think a lot of us love to talk about culture, but it has got to take organic root. It's the hardest process – and there is no formula.*

The metrics also changed, focusing on user growth rather than revenues as the benchmark.[49]

To encourage innovation from all parts of the company and a shift to a learning culture, Nadella introduced various initiatives. At Microsoft's internal OneWeek Hackathon, over 12,000 employees from 83 countries came together and proposed 3,000 solutions and new opportunities. These ranged from commercial problems such as the supply chain to helping disabled people have greater access to technology and helping dyslexic children achieve reading fluency.[50] Many projects were taken forward independently, while other functionality was implemented into Microsoft's existing software. The solutions required cross-functional teams to come together, encouraging collaboration across different product groups and divisions. The hackathon became an annual tradition. Another initiative, where employees could share "wild ideas", was the

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44   Amit Chowdhry, *Microsoft CEO Satya Nadella Apologizes for Comments on Women's Pay*, Forbes.com, October 10 2014.
45   Satya Nadella, *Hit Refresh*, William Collins, 2017.
46   Harry McCracken, *Satya Nadella Rewrites Microsoft's Code*, FastCompany.com, September 18 2017.
47   *Ibid*.
48   Greg Williams, *How Satya Nadella helped Microsoft get its groove back*, Wired UK, September 30 2017.
49   *Ibid*.
50   Satya Nadella, *Hit Refresh*, William Collins, 2017.

Microsoft Garage,[51] a public website where teams could test ideas and receive customer feedback before taking them further.

Drawing on his own experiences of meetings and time wasted, Nadella introduced a software dashboard to track how much time was spent on different tasks, to give employees more control of how they spent their valuable time. He used it to understand how much time he himself spent externally (compared to internally), in an effort to get the right balance. Making meetings efficient and effective was a priority:[52]

> You can, in fact, have a more effective meeting by having the right set of folks in there to be able to make the right kind of decisions as fast as you can. So, I would say it's not the number of meetings that matter, it's the effectiveness of the meetings. We also look at the number of other meetings that got spawned because of the meeting, because one of the greatest wastes of time could be a CEO sets up a meeting and there are 15 prep meetings to get to the CEO's meeting.

The growth mindset led to Microsoft acquiring innovative companies to complement its offerings. One was Mojang, which developed the global virtual Lego-type building game, Minecraft. The idea had been rejected previously by Microsoft when presented by Phil Spencer, head of Xbox. When a second opportunity arose, Nadella bought the company for $2.5 billion.[53]

In 2016, Nadella bought LinkedIn, the business-networking company, for $26.2 billion. Rather than simply integrate it, learning from other acquisitions (Nokia and aQuantive Inc), co-founder Reid Hoffman was invited to join the board.[54] Nadella was convinced that LinkedIn's data and expertise could boost Microsoft Dynamics, a line of ERP and CRM software.

The collaborative approach started to spread across the company. In the past, developers from different groups had had a high degree of ownership and pride in their software code yet little inter-group collaboration, even when it could have helped another programming group. Nadella recalled how an engineer from one group had developed a code fix for an app that ran on Windows, but the developers (in a different group) did not accept it and the stand-off remained unresolved. A few years later, at a coding meeting, attention was brought to a similar situation – a developer had identified a code improvement which was not yet implemented. This time the Windows team head immediately suggested the developer send him the code fix and it would be rapidly implemented.[55]

Brad Silverberg, founding partner of VC firm Ignition Partners and ex-Microsoft, described Nadella's influence:[56]

> His style is mature, collaborative and supportive. Very partner-oriented. He leads by example… Teams inside Microsoft today are more likely to have a shared vision and work collaboratively towards achieving company goals. He's sincere, caring and trustworthy. That spreads throughout the organisation.

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51   *Microsoft at Middle Age*, The Economist, April 4 2015.
52   Dina Bass, Christopher Gregory, *Satya Nadella, Talks Microsoft at Middle Age*, Bloomberg News, August 4 2016.
53   Joe Miller, *Microsoft pays $2.5bn for Minecraft maker Mojang*, BBC.com, September 15 2014.
54   Barb Darrow, *How Linkedin May (or May Not) Pay Off for Microsoft, Fortune*, July 21 2017.
55   Satya Nadella, *Hit Refresh*, William Collins, 2017.
56   Greg Williams, *How Satya Nadella helped Microsoft get its groove back*, Wired UK, September 30 2017.

In 2016, Microsoft Fuse Labs was embarrassed when internet trolls hacked into Tay, a Microsoft AI online bot, and manipulated it to post racist and sexist comments during a public experiment. Employees feared a backlash, but Nadella emailed them: "Keep pushing, and know that I am with you… (the) key is to keep learning and improving." [57] In response, a few months later, Fuse launched Zo, another bot that proved more troll resistant.

The markets rewarded Nadella's changes at Microsoft with the highest share price since 1999 (see Exhibits 1 and 2).

Partnering with the Enemy

Where Ballmer and Gates had been adversarial, Nadella took the opposite approach, fostering collaboration and partnership. Under Ballmer, Microsoft had sued Salesforce in 2010, and Salesforce countersued in 2011. Their 2014 partnership would aim to "create new solutions that connect salesforce.com's customer relationship management apps and platform to Microsoft Office and Windows so customers can be more productive". [58] A year later, the partnership was strengthened with integrations across Office and Skype with Salesforce software.[59]

Nadella focused Microsoft on proactively making its products available on other platforms. Examples included Office running on mobile devices such as iPhone, iPad and Android devices; Minecraft being available on Nintendo, PlayStation, iOS and Android as well as Oculus; Linux being supported on Microsoft's Azure cloud platform; and Windows working on Facebook apps. Nadella explained his approach:[60]

> Whether it's with Sundar [Google's CEO], or whether it is with Bezos [Amazon], Tim [Apple] or anyone, this is a fundamental construct. We compete hard in many areas, but instead of viewing things as zero sum, let's view things as, 'Hey, what is it that we're trying to get done? What is it that they're trying to get done?' Places where we can co-operate, let's co-operate. Where we're competing, we compete.

A Work in Progress

In October 2017, Microsoft's shareholder proxy filing revealed that Nadella had earned over $20 million in cash and stock following positive results of the fiscal year,[61] based on three performance domains: Product & Strategy, Customers & Stakeholders, and Culture & Organisational Leadership. For the latter, he had achieved 145% of the set target. The cloud platform Azure reported an 11% increase on the previous year, generating $7.43 billion in revenue. Similarly, Microsoft's Office 365 cloud version outpaced the regular software version.[62]

It wasn't only the markets and the board that were happy. Three years after the CEO's appointment, surveys showed that employees believed the company was heading in the right direction with more collaboration and a focus on the long term. However, when it came to talent

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57 *What Satya Nadella did at Microsoft*, March 16 2017.
58 *Microsoft and salesforce.com announce global, strategic partnership*, Microsoft News Center, May 29 2014.
59 *Microsoft and salesforce.com strengthen strategic partnership at Dreamforce 2015*, Microsoft News Center, September 16 2015.
60 Greg Williams, *How Satya Nadella helped Microsoft get its groove back*, Wired UK, September 30 2017.
61 Matt Weinberger, *Microsoft CEO Satya Nadella nailed his annual report card – netting him a cool $20 million*, Business Insider Nordic, October 17 2017.
62 Seth Archer, *Microsoft's big earnings beat is because of one business that is exploding*, Business Insider Nordic, July 21 2017.

development, the results suggested that top management attention was needed. For example, a number of executives displayed a superficial understanding of the new growth mindset or used it as a political tool to promote themselves. Nadella used a meeting of his top 150 executives to explain what a growth mindset was not:[63]

> *An anonymous manager came up to me recently to share how much he loved the new growth mindset – 'Hey, Satya, I know these five people who don't have a growth mindset.' The guy was just using growth mindset to find a new way to complain about others.*

He told the group that he had three expectations for leaders at Microsoft: to bring clarity to those around them, create energy, and find a way to deliver success.[64] He reminded them:[65] "To be a leader in this company, your job is to find the rose petals in a field of shit."

As Nadella gazed at the spring foliage on the Microoosoft campus, he felt he had nudged this unwieldly large and declining company along a promising path of strategic renewal and cultural revitalization. Yet he was also cautious not to declare total victory too fast, There was still work to do. For example, comments from employees[66] suggested that Microsoft was still US-centric and process-oriented in its way of working. A bureaucratic way of working persisted in some areas. Further nudging towards continuous change seemed required.

Clearly the culture change was a work in progress. Nadella wondered if he had missed any key elements. Were there hidden icebergs threatening to capsize the Microsoft supertanker? Would his change actions improve organizational learning and innovation deeply and sustainably? Or would they unravel in the unpredictable fast-changing world once he was no longer at the helm?

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63   Satya Nadella, *Hit Refresh*, William Collins, 2017.
64   Andrew Nusca, *Satya Nadella's Traveling Revival Show*, Fortune.com, December 1 2016.
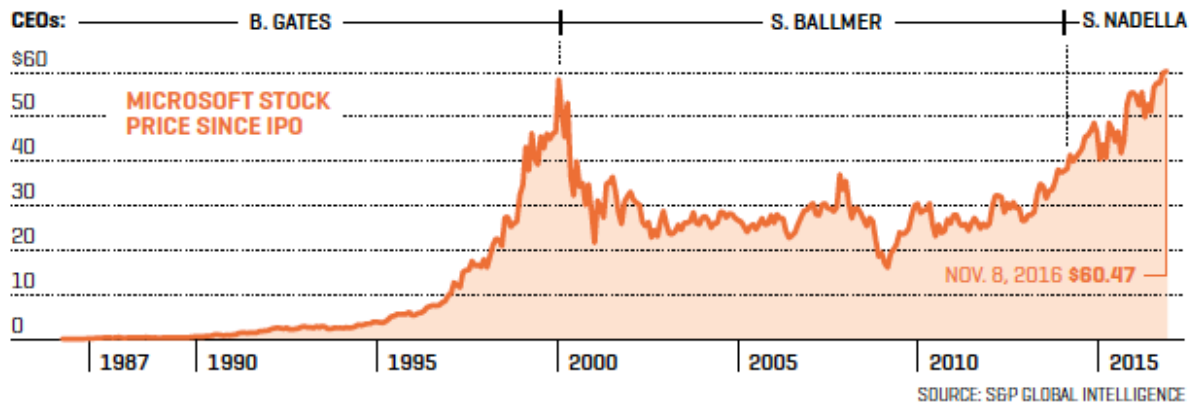65   Satya Nadella, ibid, 2017.
66   Glassdoor.com.

Exhibit 1
Evolution of Microsoft's Share Price from IPO to November 2016

MICROSOFT'S SHARES EMERGE FROM THE DESERT

In October the company's stock price reached a level unseen since 1999. However, Microsoft's market cap, now about $460 billion, remains well off the $600 billion peak because huge buybacks have reduced the share count.

CEOs: ———— B. GATES ———— | ———— S. BALLMER ———— | S. NADELLA

MICROSOFT STOCK PRICE SINCE IPO

NOV. 8, 2016 $60.47

$60
50
40
30
20
10
0

1987 | 1990 | 1995 | 2000 | 2005 | 2010 | 2015

SOURCE: S&P GLOBAL INTELLIGENCE

Source: Satya Nadella's Traveling Revival Show, Fortune.com, December 1 2016.

Exhibit 2
Microsoft Key Financials & Employee Numbers, 2010-2017

(In $ millions, except per share data)

Year Ended June 30,	2010	2011	2012	2013	2014[h]	2015	2016	2017[a]
Revenue	62,484	69,943	73,723	77,849	86,833	93,580	85,320(d)	89,950(b)
Gross margin	n.a.	n.a	56,193	57,464	59,755	60,542	52,540(d)	55,689(b)
Operating income	24,098	27,161	21,763(j)	26,764(i)	27,759	18,161(g)	20,182(d)(e)	22,326(b)(c)
Net income	18,760	23,150	16,978(j)	21,863(i)	22,074	12,193(g)	16,798(d)(e)	21,204(b)(c)
Diluted earnings per share	2,1	2,69	2,00(j)	2,58(i)	2,63	1,48(g)	2,10(d)(e)	2,7(b)(c)
Cash dividends declared per share	0,52	0,64	0,8	0,92	1,12	1,24	1,44	1,56
Cash, cash equivalents, and short-term investments	36,788	52,772	63,040	77,022	85,709	96,526	113,240	132,981
Total assets	86,113	108,704	121,271	140,890(f)	170,569(f)	174,303(f)	193,468(f)	241,086
Long-term obligations	13,791	22,847	22,220	24,531(f)	35,285(f)	44,574(f)	62,114(f)	104,165
Stockholders' equity	46,175	57,083	66,363	78,944	89,784	80,083	71,997	72,394
Employees:								
Total	89'000	90'000	94'000	99'000	128'000	118'000	114'000	124'000
US	54'000	54'000	55'000	58'000	62'000	60'000	63'000	73'000
International	35'000	36'000	39'000	41'000	66'000	58'000	51'000	51'000

Source: Microsoft Annual Reports & 10K Filings.

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Exhibit 2 (Cont'd)

(a) *On December 8, 2016, we acquired LinkedIn Corporation. LinkedIn has been included in our consolidated results of operations starting on the acquisition date.*

(b) *Reflects the impact of the net revenue deferral from Windows 10 of $6.7 billion, which decreased operating income, net income, and diluted earnings per share ("EPS") by $6.7 billion, $4.4 billion, and $0.57, respectively.*

(c) *Includes $306 million of employee severance expenses primarily related to our sales and marketing restructuring plan, which decreased operating income, net income, and diluted EPS by $306 million, $243 million, and $0.03, respectively.*

(d) *Reflects the impact of the net revenue deferral from Windows 10 of $6.6 billion, which decreased operating income, net income, and diluted EPS by $6.6 billion, $4.6 billion, and $0.58, respectively.*

(e) *Includes $630 million of asset impairment charges related to our phone business, and $480 million of restructuring charges associated with our phone business restructuring plans, which together decreased operating income, net income, and diluted EPS by $1.1 billion, $895 million, and $0.11, respectively.*

(f) *Reflects the impact of the adoption of the new accounting standard in fiscal year 2017 related to balance sheet classification of debt issuance costs. See Note 12 – Debt of the Notes to Financial Statements for further discussion.*

(g) *Includes $7.5 billion of goodwill and asset impairment charges related to our phone business, and $2.5 billion of integration and restructuring expenses, primarily associated with our phone business restructuring plans, which together decreased operating income, net income, and diluted EPS by $10.0 billion, $9.5 billion, and $1.15, respectively.*

(h) *On April 25, 2014, we acquired substantially all of Nokia Corporation's Devices and Services business ("NDS"). NDS has been included in our consolidated results of operations starting on the acquisition date.*

(i) *Includes a charge related to a fine imposed by the European Commission in March 2013 which decreased operating income and net income by $733 million (€561 million) and diluted EPS by $0.09.*
Also includes a charge for Surface RT inventory adjustments recorded in the fourth quarter of fiscal year 2013, which decreased operating income, net income, and diluted EPS by $900 million, $596 million, and $0.07, respectively.

(j) *Includes a goodwill impairment charge related to our previous Online Services Division business segment (related to Devices and Consumer Other under our current segment structure) which decreased operating income and net income by $6.2 billion and diluted earnings per share by $0.73.*