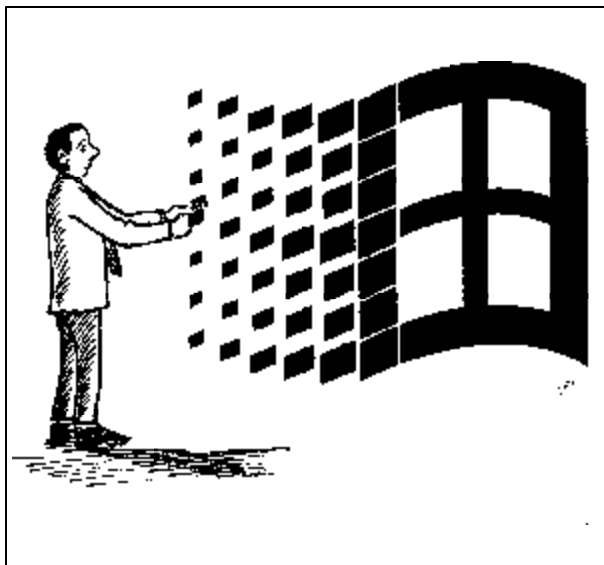


Remaking of Microsoft Under Steve Ballmer

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This article is about how CEO Steve Ballmer is remaking the company that Bill Gates built. Today Gates no longer runs Microsoft. He gave up his role as a CEO two and a half years ago and functions today as a Chief Software Architect, doing what he loves best: developing products. Perhaps the most notable result is Microsoft's Web-services push named as Net, which has placed the company in the vanguard of a major technology shift.



In 1998, Gates gradually began handing over day-to-day management to Steve Ballmer. First he made Ballmer President. A year and a half later in year 2000 elevated him to CEO. There was no better person to take the job as Ballmer was an insider of the company and had always been comfortable with the ins and outs of management.

Ballmer and Gates were long time friends since the mid-1970s, when the two were math whizzes at Harvard University. Gates dropped out and founded Microsoft while Ballmer stayed to graduate. When

the fledgling Microsoft ran into problems in 1980, Gates persuaded Ballmer to join him. Since then, Ballmer has been with Microsoft working in various capacities including sales chief.

The transition had its rocky movements. It took some time before the duo eventually grew into their new roles. Gates resisted handing off authority at first, struggling to give up high-level decisions that he made for decades. Ballmer could not manage Microsoft the way Gates did. There were too many moving parts and it was too unwieldy. Ballmer realized that Microsoft needed new methods to manage an ever more complex company. He first tried to organize around different kinds of customers. The idea was to get the product development groups more connected to users. But the reorganization did not work. Not even a year into his new job, Ballmer was stressed and looked it.

The New Mission

Now, Ballmer feels like he is right on track. He has come up with his prescription for achieving a great, long-lasting company. He spelled it out publicly for the first time in a June 6, 2002 memo to 50,000 employees under the heading "Realizing potential." This memo has the same level of significance as that of an earlier memo "Internet Tidal Wave" that Gates sent out in 1995 which spurred Microsoft to become a force to be reckoned with on the Net. For the first

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time, Microsoft's mission is not just about technology. It is also about improving the way the company handles relationships with customers and others in the technology industry. The key action items in the latest memo are:

- Upcoming business unit reviews will focus on computer security, product road maps and helping customers do new things;
- Major innovations will be planned for the next generation of Windows including Longhorn;
- The executive team will look at all decision-making processes to make sure that they are excellent;
- Ballmer will meet with every vice-president of the company over the next five months to get their input;
- Ballmer himself will spearhead product quality and customer loyalty programs.
- During performance reviews, every employee will discuss the company's values with his or her supervisor.

Current Business Situation

The company is no longer the racehorse it once was. Growth has slowed since the last two years. The problem has been that the two biggest growth engines—Windows operating system and Office suite of applications are slowing as PC sales wane. Even though Microsoft had success in some new markets, such as databases and handheld, it has struggled in the fledgling markets for interactive TV and cell phones. That left Ballmer looking for alternatives—a key reason why Microsoft last year jumped into the game-console business with Xbox and into accounting software business with the acquisition of Great Plains Software Inc. These forays have made it a competitive threat to Sony in the game-console business and SAP in the accounting software market.

Ballmer is making fundamental changes in the way Microsoft is managed.

Build Customer Loyalty

Last summer, Microsoft surprised corporate customers with a licensing plan that encourages them to sign a new contract to receive automatic upgrades

of software. Pressures from customers led Microsoft to postpone the deadline for upgrading licenses twice and loosen the rules. Always attuned to customer's complaints, Ballmer is even more sensitive now. He has decided to make customer trust the focus of his key action items.

Build Industry Trust

Legal battles threaten to undermine Ballmer's mission. His response has been to settle. The lack of industry support during the antitrust trial led Ballmer to start communicating with critics and rivals—even meeting with Oracle boss Larry Ellison. Microsoft has now settled the antitrust case with the Justice department and a host of other cases brought by rivals and customers. Microsoft has to guard itself in the future in not being seen as a heavy-handed monopolist and a threat to start-ups. Else distrust will continue to run deep among the industry brethren. Ballmer's chief challenges are now internal.

Create New Business Processes

Business is not going to be any simpler to run five years from now than it is today. Microsoft is thinking about the tools that are needed to run that business now. Ballmer is calling on his colleagues to rethink every aspect of the way they do their jobs. He has put in place a set of management processes aimed at bridging the gap between the sales and product development sides of the company. And also management processes from coordinating product strategies to including customer feedback.

Ballmer has elevated the importance of something he calls the "Organizational Health Index" (OHI), a key factor in measuring executive performance. Taken from Procter&Gamble, the OHI is a survey of employees who are asked to rate their bosses on their leadership skills. By studying GE, Ballmer crafted a new system to identify and promote promising managers. Perhaps the biggest innovation is something called the Executive P&L, launched in April 2002. It is a balance-sheet that divides the company into seven distinct businesses and gives each unit's leader the financial tools to measure its performance. In the past, managers would know the costs of developing a product but not the cost of selling it. Now, they can see their costs end-to-end, giving them the information necessary to make decisions

about allocating resources without having to run it by Ballmer. This device is expected to empower executives who have long worked in an environment where the CEO ran everything.

So much attention to management processes and the myriad metrics of evaluating performance could stifle innovation. This is the downside risk. Earlier Microsoft has thrived, in part, because it was light on structure and often felt like a start-up. While some feel that the new management processes could hinder innovation, there are others who feel that the new business processes could help turn research breakthroughs into products more quickly.

Push Authority Down

Ballmer has embarked on a path of decentralization and empowerment. He has empowered a second-tier of executives to run their businesses with less supervision, breaking from Microsoft's heritage of placing every important decision in the hands of Gates and himself. At the end of the day, the executives are expected to think it through themselves as opposed to the concept that the top management will think it through for them. Now, senior managers will be expected to do tasks such as allocating resources between product development and sales.

To make this work, Ballmer has to change his leadership style. He has to battle himself. He has been the proto-typical hands on manager. Simply put, he is a grade-A control freak. He is obsessive about understanding every detail of a business—sales, costs, marketing—to the point where he might know how well the Office Suite sold in Sweden last quarter. He will have to delegate. He needs to suppress the hands on approach impulse and let the executives run their businesses. A lot of people in Microsoft would like to see Ballmer balance a little bit more the fun side with the tough side.

Establish Cross-Company Collaboration

The business strategy had become somewhat splintered from the technology development in some ways that were very dangerous. To address this issue, eight committees of top executives will regularly discuss strategy and leverage each other's business rather than counting on Gates and Ballmer to spot synergies.

To make it all work, Ballmer has engineered an array of meetings, reviews and examinations that force people to do their jobs differently. To make sure the new management system ticks along with precision, Ballmer kicked off the cycle "rhythm of the business" with seven days of business reviews in May. Gates had his "think weeks" where he secluded himself at his family's retreat to ruminate on the Next Big Thing in technology. Ballmer has created "management sync weeks," weeklong events every quarter with day-after-day of meetings involving the executive staff and board members. The idea is to coordinate themes and strategies among the company's important decision-making groups.

It is not enough to have new business processes. Ballmer wants to change the way people behave too. He needs managers who are willing to work collaboratively. He wants people who are driven to finish projects on time. At the same time, he has been quick to get rid of people who don't fit in. He expects people to be very open, self-critical, almost relentlessly honest and at the same time respectful. That's an about face from the culture that he and Gates created, where charged and hyper-competitive executives advanced by out-thinking each other and pummeling competitors. Microsoft has torn through a string of chief operating officers, brought in from the outside, whose job was to institute management processes. Most failed as many employees saw these things as manifestations of old-line companies. Ballmer has one distinct advantage though—he is not an outsider trying to impose a foreign structure on the company.

Ballmer's hope is that his code of conduct will make Microsoft a better corporate citizen. He says that the company's core values of honesty, integrity, and respect must shine through with customers, partners and the tech industry. Gates has mentioned that "Steve is the No 1 guy, and the I am the No 2 guy ... I have a strong voice, a strong recommendation, but Steve has to decide." Indeed if Gates is Rockefeller, then Ballmer is shaping up to be Microsoft's Jack Welch with the force of personality and management chops to reinvent a company in his own image. The challenge for Ballmer is to remake Microsoft into a company that can grow rapidly and profit handsomely, while also being seen as trustworthy by customers and its industry players. ■

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