

# Assessment of Microsoft's Organizational Change

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## Abstract

This paper analyzes Microsoft's large-scale organizational transformation initiated by CEO Satya Nadella in 2014, following years of internal competition, stagnation, and declining innovation. Using Lewin's Force Field Analysis and Bolman and Deal's Four Frames, it assesses how Nadella reshaped Microsoft's culture, structure, and leadership style to foster collaboration, agility, and innovation. The study finds that Nadella's approach—centered on empathy, empowerment, and cross-functional cooperation—effectively removed restraining forces, unified fragmented divisions, and revitalized employee engagement. Structural decentralization, shared performance metrics, and cultural initiatives like the global Hackathon reinforced Microsoft's mission to “empower every person and every organization on the planet to achieve more.” The paper concludes that Nadella's success derived from addressing both human and systemic dimensions of change, aligning leadership behavior, organizational design, and symbolic culture toward a sustainable learning organization.

## **Introduction**

Change is inevitable. The technology industry's significant changing landscape and disruptive environment are forcing organizations to revitalize continually.

This report will assess the organizational change experienced by Microsoft Corporation ('Microsoft') since 2014. It will first collect relevant information from the public domain through a series of questions. Then, this report will further assess and provide insights into the revitalization effort that Microsoft's CEO Satya Nadella undertook, based upon two managing change theories: Lewin's Force Field and Bolman and Deal's four frames.

## Data Collection

This section collects the data related to Microsoft’s revitalization effort.

### Describe the change

Microsoft, the mythic multinational technology company, was founded in 1975 by Bill Gates and Paul Allen. After several successes with two star products, Windows operating system and Office products, the company was struggling to find a new breath and strategy. At this point, the organization was divided into business units that operated more as competitors than collaborators, creating a non-favourable atmosphere for innovation (Jhonsa, 2016).

From an external standpoint, the firm was facing fiercer and fiercer competition with giants such as Google and Apple. In this context, Satya Nadella was named CEO of Microsoft in February 2014 and undertook a major change with one primary objective: **the ending of internal and counterproductive competition.**

To embed the change, Nadella communicated a new mission statement: *‘to empower every person and every organization on the planet to achieve more’*. More concretely, this mission had three **common goals and ambitions**: *‘reinvent productivity and business process, build the intelligent cloud platform [and] create more personal computing’* (Brenzel, 2015).

Eventually, the new culture relied on **three central values**. First, Nadella wanted to create a ‘customer-obsessed’ company eager to know its customers deeply to design new products that meet their needs. Next, the new CEO dreamt of a ‘diverse and inclusive’ firm that would reflect and leverage its employees’ diversity to compete better in a diverse world. Lastly, Nadella saw the company as ‘One Microsoft’, meaning a *‘family of individuals united by a single, shared mission’*.

Thus, right after his arrival, Nadella implemented a change to create a new organizational culture, with clear ambitions and objectives to foster cooperation and innovation. This change implied significant efforts to decentralize management activities, implement new employee programs rooting the new mission in mind and perform staff changes (Dudovskiy, 2019). The details of the strategies will be discussed further in this paper (see What strategies were employed?).

### What is the driving force behind the change?

The force pushing toward the change included the company’s **inability to innovate and compete in the market**. Indeed, as mentioned above, the organization relied heavily on its operating system, Windows, and its Office suite, which were no longer enough to sustain its business. Moreover, Microsoft’s desire to pursue the opportunity of **the booming cloud market** (where it could

gain market share along-side AWS and leverage a second-mover advantage), was a force that further pulled the change.

## What strategies were employed?

One of the strategies employed was to move the organization structure from individualistic business units to a **cross-functional and flat structure with integrated teams**. The existing engineering and R&D operations were overhauled and transformed into the three groups today in charge: Windows and devices, cloud and enterprise, and lastly, application and services (Gershgorin, 2018).

Also, Nadella **decentralized the management** of support functions such as sales, marketing and operations. The company let go of 18,000 people as a result of this massive restructuring (Microsoft, 2014). The majority was from professional and factory positions, eliminated after Nokia's business alignment with Microsoft's central operations.

As innovation was the focus to go forward, Microsoft recognized the requirement to develop new organic and innate capabilities as one of the critical success factors. Hence, it now embraces the importance of **engaging and empowering local teams** to make decisions based on customer needs and provides mechanisms to consider and allow ideas to bloom.

Also, the performance management established **shared metrics**, fundamentally linked to the compensation packages, to reinforce the cross-functional and customer-orientated mindset as well as nurture a common goal mindset at the leadership level (London, 2018). These metrics are classified as performance metrics and power metrics. Performance metrics deal with current year performance while power metrics measure future performance based on indicators such as usage and consumption growth, active customers' growth and customer satisfaction amongst others.

Microsoft took a step beyond and broke the norm by forming **strategic partnerships** with cloud-computing companies and tech start-ups such as Salesforce and Dropbox, traditionally considered as the enemies (Hempel, 2015). Microsoft acknowledged these partnerships are essential not only to leverage these companies' business synergies and capabilities but also to learn how to develop innovative business models and the work environment to support them.

Moreover, the company launched Microsoft's **Hackathon** in 2004, a one-week event to support cultural change. It serves as a place to bring everyone together, experience creativity in a fast-paced learning and collaborative environment as well as discover new ideas (Vaz, 2019). It gathered 18,000 employees around the world in 2018, with 46% of the participants entirely new to the event. Also, 90% of them further responded that taking part in the event had contributed to their sense that Microsoft is a great place to work. In 2019, the company extended the Hackathon to customers, which resonated with the mission and

enhanced collaboration, creativity and experimentation further.

Combined, the strategic partnerships and Hackathon, allowed Microsoft to renew its tainted image amongst the tech community. Indeed, the company suffered from its closed-source policy as well as its aggressive and illegal competitive strategies (Tynan, 2019).

### **What barriers to change were encountered? How were they dealt with?**

As mentioned above, Microsoft had to lay off as many as 18,000 employees. Consequently, the rest of the staff were worried about the situation because the company did not communicate about it in advance. The attitudes toward the change were, therefore, contrasted as some people did not see the necessity for change nor had the time to prepare for its outcomes.

Nevertheless, most employees trusted the leader's vision and shared with him a sense of urgency for change, which limited the resistance significantly (S., 2018).

### **How well was the change implemented?**

Six years after its nomination, Nadella has succeeded not only in raising the stock price of the company - which has almost tripled from Feb 2014 to Sep 2017 - but also in building a new collaborative culture (Vaz, 2019). In turn, one of the main outcomes of this cultural change is increased innovation over the past few years. Indeed, Microsoft succeeded in moving away from hardware and operating systems to the business of cloud and subscription products.

For example, in 2016, the company launched 'Planner' to compete with the popular software 'Trello'. One year later, Microsoft announced the creation of 'Teams', the new tool that competes with 'Slack'. Moreover, Microsoft developed and met success with Office 365 based on cloud solutions. At the end of 2017, Office 365 revenue overtook regular license sales for the first time in the company's history (Bright, 2020). With Office 365 and its unique features, Microsoft succeeded in entering the collaborative tools industry with a broad range of solutions: OneDrive for Business, SharePoint Online, Teams, Yammer, Skype for business, Skype Translator, HoloLens amongst others.

However, as Kathleen Hogan, Chief People Officer of Microsoft, declared in 2019, Microsoft is still going through the change: *'By no means are we declaring victory. We have a way to go, and we have to earn our aspired culture every day. We have momentum, but we're always trying to close the gap between our aspired culture and the daily experience of our employees. You can't freeze culture in a declaration'* (Carucci, 2019).

- Examine and assess the change agent's role

Nadella is highly **involved** and engaged. He sets a clear tone of the vision and goals and exhibits his commitment. He also demonstrates **empathetic**

**intelligence**, passion and understanding in dealing with people (Hempel, 2015). Moreover, he shared with everyone that the transformation is a continuous renewal process and seeks commitment from employees to walk with him in this long-term journey.

Nadella also encouraged his executives and employees to work across once-siloed divisions and restructured the role of his executive teams. These initiatives helped develop **shared common goals** between the top three company leaders - Nadella, Lu and Larson-Green - and build **trust** and confidence in employees to support the transformation (Hempel, 2015).

Through his **leadership**, he also reinforced the core identity, mindset and soul of Microsoft - empowering every person and every organization to achieve more and create tools for others to benefit. Finally, Nadella asked the founder, Bill Gates, to spend 30% of his time on providing technical advisory and feedback to the company and employees (Hempel, 2015). This initiative helped lift employees' motivation and let the founder serve as moral authority and source for inspiration.

## Assessment of the Organizational Change

The following section will assess different facets of the revitalization effort. To do so, it will use two complementary models:

- Lewin’s Force Field - to evaluate the change’s dynamics.
- Bolman and Deal’s four frames - to assess the organization’s revitalization effort systemically.

### Lewin’s Force Field Analysis

The Force Field Analysis provides a robust framework to plan change through the identification of the forces influencing the system to change: the **driving forces** supporting the change and the **restraining forces** acting as an obstacle to it. The **equilibrium** is when the organization’s state stabilizes (*‘where the forces pushing for change are equal to the forces resisting it’*) (Spier, 1973).

### Initial Static Equilibrium

Before the revitalization effort, Microsoft already lost the phone market to Android (Google) and iOS (Apple) as well as the search engine market to Google. It was also losing the cloud market to Amazon AWS (Vaz, 2019). As is, the company was giving up any possibility to grow outside of its ‘historic’ industry (desktop OS and Office). Consequently, the company needed **innovation** to deliver new relevant products (e.g. the HoloLens) and try to compete with Amazon’s cloud.

New innovative projects required the **collaboration** of various business units to reduce the time-to-market and better fulfill customers’ needs (Hempel, 2015). However, Microsoft’s was fostering **competition** between the business units instead of cooperation - *‘the leaders of those units often viewed each other as rivals rather than co-workers’* (Jhonsa, 2016) . Also, the **structure was counterproductive** as it hindered risk-taking and innovation - *‘people were motivated to produce things they knew their managers would like, rather than take risks on new ideas that might fail’* (Hempel, 2015).

Furthermore, Microsoft was suffering from a **poor image** within the tech community. Indeed, the company was entirely keeping its source code closed while worldwide organizations were sharing what they were doing extensively. Also, the company antagonized most of the tech-savvy users when it bundled Microsoft-stamped software in its operating system (e.g. Internet Explorer, Windows Media Player), violating anti-trust laws (Tynan, 2019).

The following schema illustrates the company’s force field **before** the revitalization effort.



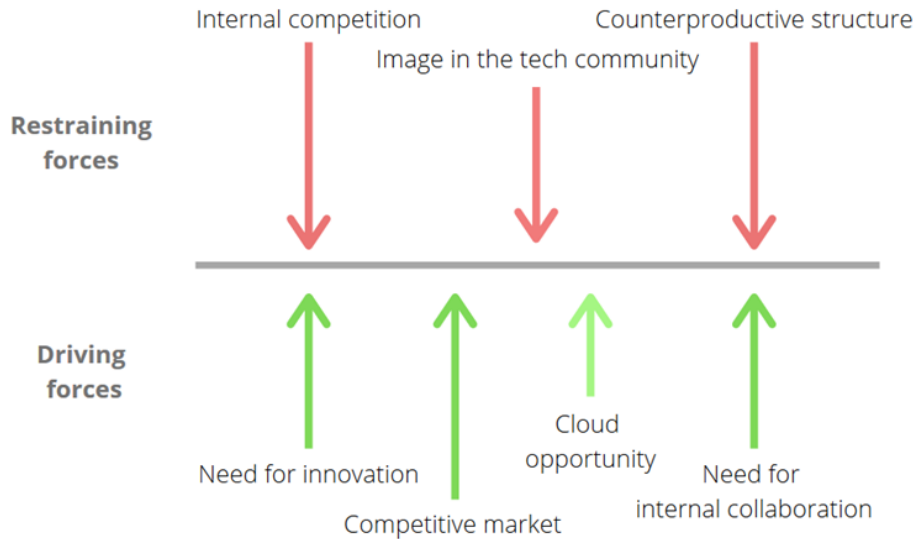


Figure 1: Microsoft’s force field before the revitalization effort.

## Moving the Equilibrium

Satya Nadella decided to act on these forces to move the equilibrium toward the desired future.

In an early email, he communicated to the whole company his vision and the culture he wanted to foster. Specifically, his ‘One Microsoft’ initiative aims to *‘build on the ideas of others and collaborate across boundaries to bring the best of Microsoft to our customers as one’* (Bregel, 2015). This new dynamic, coupled with the flatter structure, enabled **innovation** and **collaboration** between previously siloed divisions (Hempel, 2015).

Through these changes, Satya Nadella effectively removed a restraining force (i.e. the counterproductive structure) and converted another restraining one into a driving force (i.e. the competition between divisions into collaboration). For instance, *‘Nadella has pushed researchers to collaborate much more closely with engineers in other departments to help them get products out faster’* (Hempel, 2015). The early success of Microsoft’s Skype Translator and HoloLens - two extremely innovative projects - is evidence that *‘Microsoft’s long-term R&D teams are now working more closely with engineering teams to commercialize new technologies’* (Jhonsa, 2016).

Otherwise, the revitalization effort also managed to improve Microsoft’s **image** in the tech community. Indeed, Satya Nadella has been over-communicating about Microsoft’s new direction in tech conferences and newspapers. He has also been creating partnerships with other companies as opposed to trying to *‘crush’* them (e.g. Salesforce). Moreover, Microsoft dramatically shifted its position

about open-source software (OSS) from calling it ‘*cancer*’ to being ‘the open-source community’s greatest champion, contributor and user’ (Ring, 2018).

Since the tech community (developers, start-ups, journalists) can make or break a company in Microsoft’s target markets (e.g. AI, Cloud), this image improvement is extremely relevant.

The following schema illustrates Microsoft’s force field during the revitalization effort.

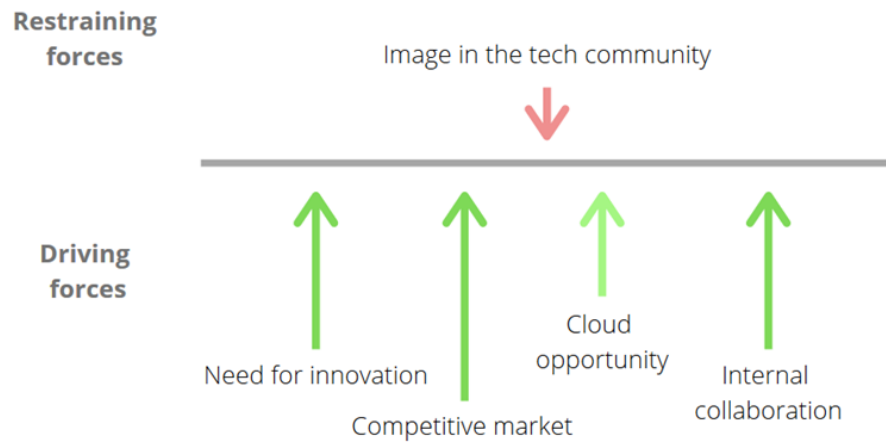


Figure 2: Microsoft’s force field during the revitalization effort.

This analysis highlighted the relevance of Nadella’s strategy, which was primarily focused on removing and converting restraining forces instead of adding new driving ones. Indeed, this approach was more likely to yield stable changes as it removed forces that were pushing for a return to old behaviours - thus reducing entropy (Spier, 1973).

## Bolman and Deal's Four Frames

Bolman and Deal's four frames provide a framework that allows assessing the change using the theory of four integrated organizational frames.

### The Structural Frame

**The structural frame** defines the goals and roles of an organization. Before the change, Microsoft successfully maintained its monopoly position, particularly in the personal computing devices market, for decades. However, as the technology industry evolved with the booming of smartphones and cloud-based productivity, Microsoft struggled to compete with rivals such as Apple and Google.

During Nadella's leadership, Microsoft announced the transformation into a 'mobile-first, cloud-first' company as the new **strategic goals**. The new structure in place supported these goals. Indeed, it enabled a spirit of collaboration and let the company continuously improve its capabilities in all areas organically as well as externally - through strategic partnerships - to achieve the common goals. Furthermore, the new organizational structure empowered people to innovate.

### The Human Resource Frame

The **human resource (HR) frame** focuses on the relationships between the organization and its people. In other words, the HR frame refers to policies and procedures that support people inside the organization.

Often, managers' objective is to have high-involvement and **high-commitment** amongst the employees. Before the change, Microsoft employees were divided into business units resulting in highly individualistic and competitive behaviours. Thus, the organization had to re-build its HR frame to give a sense of purpose to its employees and end its competitive culture. As Bolman and Deal explain, different strategies exist to enable this reframing: **downsizing and outsourcing** or **invest in people**. Microsoft focused on the second one: it trained and invested in its managers to transform them into symbols of the new culture (Bolman & Deal, 2017).

Concretely, Microsoft provided managers with new tools and approaches to help them engage with their teams. Senior management implemented a new practice called '*research the amazing*' (Carucci, 2019). Thus, for each leadership meeting, one manager was responsible for picking an inspiring story from Microsoft's ecosystem and narrating it to its colleagues. These stories embodied the new culture and gave some concrete examples and ideas to senior managers.

Moreover, a new **compensation system** based on '*power and performance metrics*' has been implemented to align the assessment process with the new expectations: more empathy from managers, the ability to create a team identity

and engage with their team, amongst others. Eventually, Microsoft developed several employee-empowerment programs such as ‘Microsoft’s Hackathon’ or the ‘monthly Q&A with Nadella’ so that employees can ‘*give real-time feedback, which helps leaders understand what resonates and what doesn’t*’ (Carucci, 2019).

Microsoft has, therefore, invested in people in several ways to support the company’s new collaborative culture. This approach favoured the ‘symbolic’ reframing. Indeed, people now want to start and keep working at Microsoft as they find sense in the new culture.

## The Political Frame

The **political frame** refers to all the decisions made to allocate scarce resources. It views ‘*organizations as coalitions composed of individuals and groups with enduring differences who live in a world of scarce resources. That puts power and conflict at the center of organizational decision making*’ (Bolman & Deal, 2017).

Before Satya Nadella’s arrival, Microsoft’s toxic culture led to a significant **waste** of time, money and resources, thus preventing employees from focusing on a limited set of common goals.

After Satya Nadella’s products and services restructuring (see Appendix 1), all three product sections went across all business functions, meaning that all the business units fully supported these sections. As a result, the destructive internal competition was effectively extinguished in favour of collaboration (Gershgorn, 2018).

Moreover, like many other gigantic companies, Microsoft suffered from many unproductive meetings, leading to a significant waste of resources. Satya Nadella helped Microsoft turn around the situation drastically through his readily applicable and effective 3-rule method for meetings: listen more, talk less and be decisive when the time comes (Bariso, 2019). This method led to balanced and productive meetings.

Finally, these initiatives reflect significant political skills, including agenda-setting, bargaining and negotiating. According to Bolman and Deal, ‘*goals and decisions emerge from bargaining and negotiation among competing stakeholders jockeying for their interests*’ (Bolman & Deal, 2017). Nadella solved these conflicts among interest groups with his political skills.

## The Symbolic Frame

The **symbolic frame** deals with what attracts and retains people within an organization.

Employees’ motivation increased as a result of the cultural transformation initiatives that symbolized collaboration and empowerment. Also, the company

reinforced this phenomenon and instilled a sense of pride by providing employees with opportunities to learn and get involved in varied aspects of the company.

The changes within the structural, HR and political frames mentioned above, let the company meet employees' intrinsic and extrinsic motivations, which supported the symbolic frame (Bolman & Deal, 2017). However, the leadership's ability to live and breathe the culture and 'walk the talk' was necessary to satisfy employees' intrinsic motivations in the long-term. Microsoft is in the right direction to attain this objective as a result of the systemic changes performed within the organization.

According to data collected by Glassdoor (2016), **employees' satisfaction** was 88%, a massive success from the previous rating of 51%. This rating was also 10% higher than the industry average. The data also mentioned that Microsoft employees were more adventurous than Google or Facebook employees, showing the effectiveness of the change effort. In 2019, Microsoft was ranked as the second-best employer in the world, one step behind Salesforce.

## Conclusion

Lewin's Force Field analysis highlighted that Satya Nadella successfully focused on removing or converting restraining forces instead of merely adding new driving ones - which limited employees' resistance. This approach enabled long-lasting benefits within the organization.

Nadella's revitalization effort spanned Bolman and Deal's four frames. The new structure in place followed and supported Nadella's strategy, allowing proper use of resources, fostering a new collaborative culture and ensuring employees' commitment and engagement.

## Appendices

### 1. Microsoft's structure

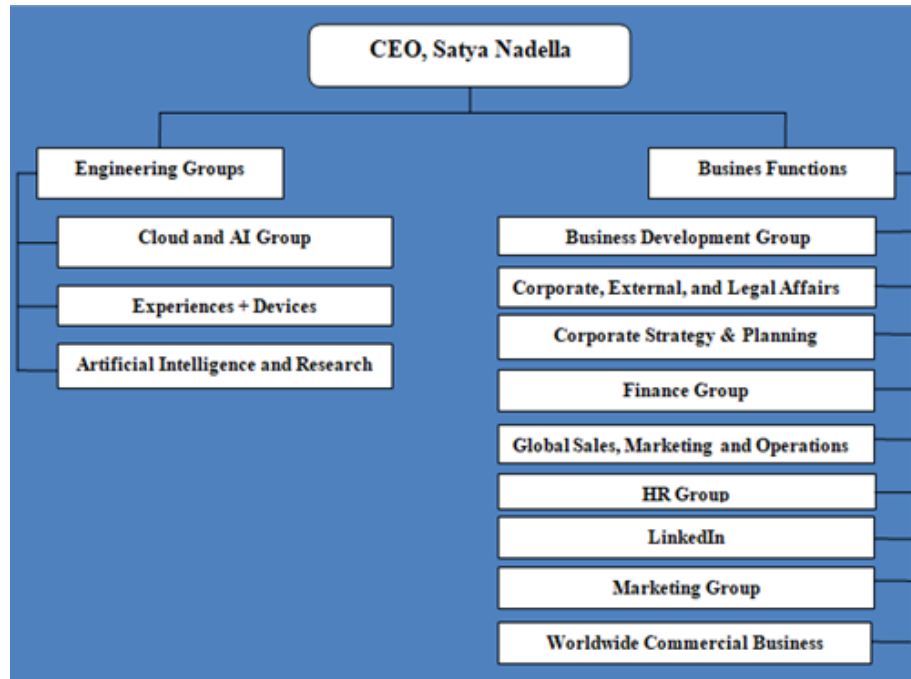


Figure 3: Microsoft's products and services' new structure (Dudovski, 2019)

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