Case Study

Chapter 14: Organisation Structure and Types

'Steve Ballmer Attempts to Remake Microsoft in Bill Gates' Shadow'

There isn't another company in the world as closely identified with its leader as Microsoft Corp. has been with William H. Gates III. When the PC revolution erupted in the mid-1980s, it was Gates who emerged as chief pitchman for the clunky machines that suddenly appeared on many desktops. When tech stocks soared to unimaginable heights, Gates's multibillions landed him atop the lists of the worlds wealthiest. And when Microsoft found itself in the crosshairs of federal antitrust regulators, Gates personified the abuse of market power. He was lord over a software behemoth that in 27 years has racked up nearly $50 billion in profits and that calls the tune for one of the world's most crucial industries.

But Gates no longer runs Microsoft. He gave up the chief executive role 2 1/2 years ago to his best friend and longtime management sidekick, Steven A. Ballmer. The burly, eats-nails-for-breakfast thrives on the discipline of organizational management the way Gates thrills to the intricacies of technology. In 2000, Gates gave his pal free rein to restructure the way Microsoft manages finance, sales, product development, marketing, even strategic planning. And Ballmer took him up on it, big time.

Today, after a transition that had its rocky moments, it's clear that a new era has dawned at Microsoft: The powerhouse that Gates built is being reconstructed by Ballmer. And Gates doesn't seem to mind. Ask Gates about Ballmer's thumbprint on the company, and he laughs at the understatement. ``Thumbprint? He's got big thumbs,'' Gates says. ``Steve's the No. 1 guy, and I'm the No. 2 guy … I have a strong voice, a strong recommendation, but Steve has to decide.''

Ballmer is shaping up to be Microsoft's Jack Welch--not a visionary founder but a leader, like the legendary General Electric Co. CEO, with the force of personality and management chops to reinvent a company in his own image. The 46-year-old Ballmer is not content to tend the machine Gates designed. His goal: to create a "great, long-lasting company" that will be even more successful in its second quarter-century than it was in its first. ``We've done well,'' he says. Now, ``there's an opportunity to really be amazing--to be amazing as a business, to be amazing in the positive impact that we have on society. But we have to do some things a little bit differently to be as amazing as we hope we can be.''

After more than two years of trial and error as a new CEO, Ballmer has come up with his prescription for achieving amazing-ness. He spelled it out publicly for the first time in a June 6 [2002] memo to 50,000 employees under the heading 'Realizing Potential.' Typically, crossing-the-Rubicon moments in Microsoft's history have been heralded by a call-to-arms memo. The ``Internet Tidal Wave'' e-mail that Gates sent out in 1995, for instance, spurred a sleepy Microsoft to become a force to be reckoned with on the Net. Ballmer's memo, too, is a clarion call. He lays out a new mission statement--agreed on by the company's top executives during a March [2002] meeting--and describes the path to get there.

The new mission sounds simple enough, but it's audacious in scope: `To enable people and businesses throughout the world to realize their full potential.'' That's far broader than the company's basic goal of building software for any device, anywhere. For the first time, Microsoft's mission is not just about technology. It's also about improving the way the company handles relationships with customers and others in the technology industry. ``This is not just a fluffy statement of principles, but really a call to action,'' Ballmer writes.

Indeed, the CEO is calling on his colleagues to do nothing less than 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. 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 Ballmer. And, in response to the frustration of corporate customers, he has ordered his engineers, sales force, and managers to improve the quality of their products and services.

To make it all stick, Ballmer has concocted a dizzying array of meetings, reviews, and examinations that force people to do their jobs differently. It includes everything from rank-and-file employees grading their supervisors to an accounting system for managers that helps them weigh spending trade-offs to quarterly off-site brainstorming meetings for top execs. Each new process is designed to hook into the next so decisions can be made quickly--and can later be measured. This is light-years from the ad hoc way Microsoft took action before. The final touch: Ballmer is making adoption of the new corporate values part of every employee's annual performance review.

Ballmer's hope is that his code of conduct also will make Microsoft a better corporate citizen. He says the company's core values of honesty, integrity, and respect must shine through with customers, partners, and the tech industry. Microsoft's five-year antitrust case has put a severe strain on its relationships with the rest of the industry, but Ballmer believes that by being open with others about its plans, Microsoft can regain the industry's trust. ``We're going to work even harder on these positive relationships, whether that means an investment of time, an investment of energy, or being honest and open and respectful,'' he says.

Ballmer also has to battle himself. Simply put, he's a grade-A control freak. He's 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. When he became president in 1998, he moved his office to RedWest, the nearby campus that's home to Microsoft's online businesses, and spent a year running the operation. When Paul Gross stepped down as the leader of Microsoft's wireless-computing group last year, Ballmer took control of the division for nine months before handing off the job to Pieter Knook in February. ``He'll have to learn to delegate. He wants to, but he's not wired that way,'' says a former Microsoft executive.

It's not clear that the company's other managers are capable of changing their ways, either. In his memo, Ballmer says he wants his people to be ``respectful'' and ``accountable'' toward outsiders and each other. That's an about-face from the culture he and Gates created, where hard-charging and hypercompetitive executives advanced by out-thinking each other and pummeling competitors. Moreover, Microsoft has torn through a string of chief operating officers, brought in from the outside, whose job it was to institute management processes. Most failed. ``Many employees see these things as manifestations of old-line companies,'' says David B. Yoffie, a management professor at Harvard Business School. ``It just isn't Microsoft.'' Ballmer has one advantage, though--he's not some outsider trying to impose a foreign structure on the company.

Even though Gates and Ballmer have long been best buddies, the transfer of power was anything but smooth. Gates resisted handing off authority at first, struggling to give up high-level decisions that he had made for decades. ``So, the first six months were definitely harder than we expected. And even the second six months were just so-so,'' Gates admits. Some staff meetings devolved into shouting matches. At one meeting, Gates approved a budget hike to add more people for a project. Ballmer vetoed him, barking, ``You put me in charge of the company. Let me run it,'' say execs familiar with the meeting. Neither Gates nor Ballmer recall the incident, though Ballmer says it could have happened since the pair often spar in meetings. ``Bill had to acclimate to the idea that he could defer decisions to Steve,'' says Senior Vice-President Craig Mundie. It took some time, but the duo eventually grew into their new roles. ``It's a cautionary note to anybody who wants to try something like that,'' Gates says.

Ballmer's first stabs at retooling weren't any easier. He realized he couldn't manage Microsoft the way Gates had. There were just too many moving parts, and it was too unwieldy. ``Despite the fact that I think I'm a pretty bright guy, I knew I wasn't bright enough to run the whole company the way I ran sales, where I had a pretty complete model of what we were up to all in my head,'' Ballmer says, smacking himself in the forehead with the heel of his hand, as if driving home how hard it was to get his mind around Microsoft.

There was--and is--plenty to boggle a mind. The company is not only large, it's no longer the racehorse it once was. Growth roared along at an average 36% a year through the 1990s but slowed in the past two fiscal years. Now, in the fiscal year that ends June 30, Wall Street expects Microsoft sales to climb just 12%. While net income is expected to rise 36%, that's because earnings last year were depressed by unusual items. Operating income is expected to rise just 6% this fiscal year, to $10.73 billion, according to Goldman, Sachs & Co. Since Ballmer became CEO, the tech industry has tanked and the company's stock has declined 54%.

The problem has been that the two biggest growth engines--the Windows operating system and Office suite of applications--are slowing as PC sales wane. Even though Microsoft has had success in some new markets, such as databases and software for handhelds, 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 the accounting-software business with the acquisition of Great Plains Software Inc.

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 product-development groups more connected to users. But the reorganization didn't work. Decisions about such widely used products as Windows, for example, spread across too many of the new divisions. Not even a year into his new job, Ballmer was stressed out and looked it.

Now, Ballmer feels like he's on the right track. He has lost 52 pounds in the past year. He is tanned and clearly comfortable in his CEO role. A series of epiphanies brought him to this place--the result of reorganisational experiments, face-to-face meetings with execs at other companies, and thirsty reading of management books. Good to Great by management guru James C. Collins and Welch's Jack: Straight From the Gut got him to think about solving a wide variety of problems systematically, rather than trying to fix them on an ad hoc basis.

From this patchwork, Ballmer stitched together a quilt of management processes that, he says, especially suits Microsoft. Ballmer elevated the importance of something he calls the ``organizational health index,'' 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 Ballmer's biggest innovation is something called the Executive P&L, launched in April. It's a balance sheet that divides the company into seven distinct businesses and gives each unit's leader the financial tools to measure its performance. Ballmer hopes the device will empower execs who have long worked in an environment where everything was run by the CEO. 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.

To some managers, it's liberating. On June 3 [2002], Senior Vice-President Doug Burgum walked Ballmer through his financial plan for his corporate-applications group for the coming fiscal year. Ballmer seized on an unusually large bump in R&D spending. In the end, he made it clear it was up to Burgum to decide how much to spend. ``In some ways, the review felt like a really good board meeting,'' says Burgum, who ran Great Plains Software.

Gates had his ``think weeks,'' where he secluded himself at his family's retreat in Hood Canal in northwest Washington 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. The first sync week begins June 17 [2002].

It's not enough to have new business processes, though. Ballmer wants to change the way people behave, too. He needs managers who are willing to work collaboratively. ``People have to be very open, self-critical, almost relentlessly honest, and, at the same time, respectful,'' he says. Ballmer also wants people who are driven to finish projects on time. Under Ballmer's regime, powerful executives at the company are so-called finishers, such as Office applications boss Raikes, Chief Financial Officer John Connors, and sales chief Orlando Ayala.

Ballmer has always been a tough boss. He's known for eviscerating business plans at annual reviews, sometimes humiliating execs in the process. One former top exec says he'd rather put his arm in a food processor than work for Ballmer again. ``Steve is a pain in the ass to work for,'' the exec says. Ballmer says he's trying to improve. ``A lot of people would like to see me balance a little bit more the fun side with the tough side,'' he says. ``I think I've hit a better balance than I had in the past.''

At a March [2002] management retreat attended by 84 people, sales chief Ayala made a plea to other Microsoft execs to put the customer first. Ayala said customers often think Microsoft doesn't care about producing great products, and they believe Microsoft feels it can get away with shoddy work because it has a monopoly. ``Some of us should lose our jobs,'' Ayala says. ``All of us are accountable.'' He got a standing ovation. At the end of the retreat, Ballmer decided to make customer trust the focus of September's management sync week. He got a standing ovation, too.

A taller order will be to remake Microsoft into a company that can grow rapidly and profit handsomely, while also being seen as trustworthy by customers and its industry brethren. If Ballmer can pull that off, Microsoft executives won't be the only ones applauding.[1]

Questions

1. What evidence of new-style and old-style organisations (see Table 14-5) do you find in this case
2. Is Ballmer trying to create a more mechanistic or more organic organsiation? Explain
3. What examples of decentralisation can you find in this case?

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[1] Source: Excerpted from J Greene, "Ballmer's Microsoft", *Business Week*, June 17, 2002, pp 66-74.