

MODULE: STRATEGIC CHANGE LCDB7005

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Microsoft: Strategic Review of the Past Situation, Organizational Change Program and the Future Needs

A Strategic Change and Organization (SCO)

Coursework Two

EXECUTIVE SUMMARY

With the need to look at a company which has undergone a change program, review that change program and look at other intricacies, Microsoft readily comes to mind. While Microsoft was still making profit during Steve Ballmer's era, laptop is gradually giving way for smart phone in which Microsoft do not have meaningful share of the market as it was held by Apple (iOS) and Google (Android).

With this and many others detailed in the report, several change programs were heralded By Nadella when he became the CEO of the company that made Microsoft's stock increased by over 182%. This report is as such a look at the past situation, the change programs and what the company need to do to continue in this present trajectory.

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1 INTRODUCTION AND OVERVIEW OF THE PAST SITUATION

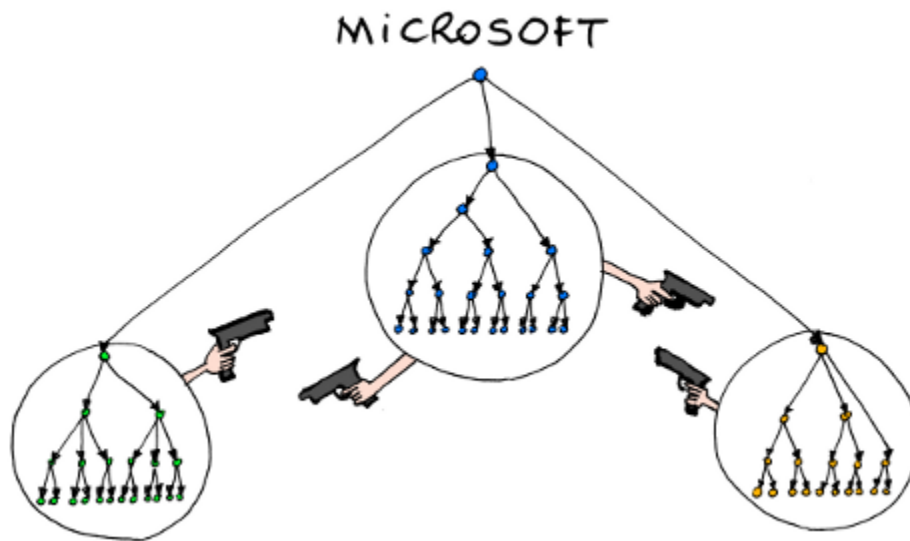
From grass to grace back to grass and finally to glory. This perfectly sums up the history of Microsoft over their 54 years existence. Microsoft's mission of powering a computer on every desk when the company was founded was very ambitious. Over the years however, during Steve Balmer's era particularly, the growing perception in Silicon Valley was that the company's best days are behind it. In fact, Peter Thiel, a well-known investor and the CEO of PayPal, in a public conversation with Marc Andreessen in 2012 posited that Microsoft is a bet "against tech[sic] innovation" (Jurvetson, 2014). While sales revenue still jumped up by around 12% to \$86 billion at the end of fiscal year in 2011 (Bednarz, 2012), its core business was declining and the main substitute products (mobile products) which the company has no substantial market share are taking over (Weinberger, 2019). The early success which arise from almost all enterprises running windows-powered PCs and servers almost spelt their doom too. This is because of Microsoft's attempt to lock the users to its products by refusing to work with others in the industry.

Lost in the euphoria of its market dominance in the early days of technological boom, Microsoft made a lot of me-too (comparable) hardware products with the hope of holding their customers down to their ecosystem. Sadly, just as the Zune MP3 player flopped against Apple's iPod, surface tablet that replicated iPad design flopped and the much-hyped 2010 phone designed for social networking was on sales for only 48 days before it was taken off market by Microsoft and Verizon. As those me-too hardware products failed, consumers rightly turned to those better-designed hardware products which were plugged to different software ecosystems; ecosystems which Microsoft has no stake and a situation which birthed Microsoft downward trend.

Concurrent with this sad development is the increasing processing power of mobile devices and the shifting of server processes to the cloud instead of on-premise servers. These two facilitated the increasing dependence on mobile devices which were mostly powered by Apple's iOS and Google's Android. When Bill Gate was asked what his greatest regret was, he inferred "not owning Android" (Elkins, 2017). The above statement credited to Bill Gate emphasized the importance of mobile. In 2014, the result of this is Microsoft's 4 percent global market share in smartphone operating system while the open source Android rules the market. Summarily, in "mobile first, cloud first" tag which Nadella often says, Microsoft missed the mobile and was late to the cloud market.

Results that further compounded Microsoft woes manifested during Steve Balmer's era. Things started falling outrightly apart that the departmental synergy was non-existent as they became known competitors. This was depicted in the popular Manu Cornet's satirical cartoon figure below which shows departments pointing guns to one another.

Figure 1: Manu Cornet's Cartoon Depicting the Organizational Structure of Microsoft



SOURCE: Carlson (2012)

The above also provided an added impetus for a much-needed change program. The growing concern of not being able to share resources, mostly intellectual capital, was magnified just before Nadella's reign. This is perhaps due to a traditional divisionalized organization the company was which, according to Carnall & Todnem (2014), is difficult to share certain resources. Though the structure of the company is similar to that of Bill Gate's reign, the organizational culture of boundaries and hierarchies were so entrenched in the psyche of workers during Steve Balmer's reign that people like David Gold who left the company only returned when Nadella became the CEO (Stolzoff, 2019).

Furthermore, and on the need for synergy and empathy with both internal and external authorities, history has clearly depicted and succinctly implied that being empathetic to all the various stakeholders' needs, especially in large companies, is as important to company's survival as other important variables. In fact, this is the genesis of stakeholder's theory (Chiu, 2015; Crane, 2011; Hasnas, 2013; Jensen & Sandstrom, 2011). Hastings (1993 cited in Carnall & Todnem, 2014 pg. 36) emphasized the need to "break down organizational boundaries, create successful partnership, [and] connect people ...". This is depicted in the table below thus:

Old Culture	New Culture
• Hierarchies • Boundaries • Internal focus	• Teams • Connections • External focus
• Paternalistic • Second guessing • Controlling	• Empowerment • Trusting • Supportive
• Analysis • Risk aversion	• Action • Calculated risk taking or innovation

FIGURE: New and Old Organizational Cultures (Hastings (1993 cited in Carnall & Todnem, 2014 pg. 37))

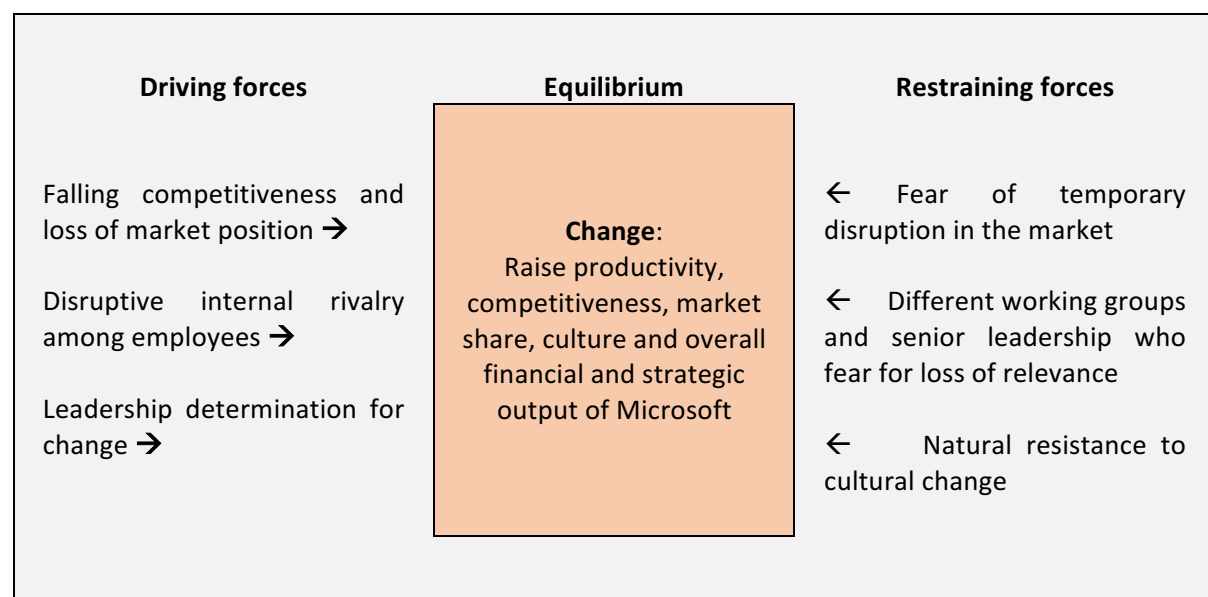
Hasting's work as depicted in the table above particularly affected Microsoft as a company in two important ways. One is on the lack of internal cohesion among the company divisions. Instead of providing a united front on the company's products, the divisions were busy fighting themselves. Microsoft's Larry Lieberman's effort to downplayed it when talking to The Verge's Tom Warren confirmed this when he said "Yes we're certainly siloed, you've all seen the picture of all the groups pointing guns at each other at Microsoft ..." (Carlson, 2012). This was not just a public secret, it became glaringly evident even on the company products, financial outcomes and the overall strategic output.

Second one is on external cohesion with other important stakeholders in the industry. This include not strategically partnering with a lot of technology companies as stated earlier. Because one is a competitor, or a potential competitor, does not mean one can't collaborate on something mutually beneficial to both parties. If there's anything, the present successful partnerships and collaborations with hitherto-renown competitors like Apple, Samsung, Android and Salesforce among lots more have positioned the company to greater heights and made it the largest company in the world now (based on market capitalizations). Office is now available on Windows and google-powered tablets; windows is now free for manufacturers of devices smaller than 9 inches devices; windows now have Dropbox; salesforce now integrated with Office, OneDrive for Business, SharePoint and lots more. These spelled another beginning, from grass back to glory, for a company people believe it's on the downward

trajectory. In fact, Salesforce CEO, Marc Benioff reported thus: “Before [now], we just were not able to partner with Microsoft. Satya has opened a door that was closed. And locked. And barricaded” (Hempel, 2015).

More importantly is the need to adapt to the rapidly changing market. The technology industry is particularly faster than most industries. Yahoo, International Business Machine (IBM), Blackberry, Hewlet-Packard have all had themselves to blame on different proportions owing to their resistance to embrace change and strategically align with the ever-changing technological needs. Of course, many factors should rightly be taken to account, it’s however becoming an acceptable wisdom in Silicon Valley that most large successful companies find it difficult to quickly make life-changing decisions. They simply can’t reinvent themselves and the failed empires are sadly evolving into middling businesses on the decline.

As Balogun & Hailey (2008) rightly posited; organization change is in three states; the current state, transition state and the future state. Summarily, the current state, which in this context referred to the pre-Nadella time (precisely Steve Balmer’s era), is one riddled with second guessing and lack of internal cohesion among organization divisions, slow reaction to external forces and market needs, lack of mutually-beneficial partnership with other industry leaders, paternalistic organizational culture which all necessitated the need for change. Aggregately, the force field analysis, developed by Kurt Lewin in 1951 which helps in highlighting the forces (variables) for and against change, of Microsoft is depicted below:



Force Field Analysis of Microsoft in Pre-Nadella’s (Steve Balmer’s) Era

2 MICROSOFT'S CHANGE PROGRAMS: ORGANIZATIONAL CULTURE, STRUCTURE AND DIRECTION AMONG OTHERS

At the tail end of Balmer's era, there were many facets of Microsoft's existence that needed change if it weren't to be another hitherto big company. As depicted in the force field analysis diagram in the preceding section, the singular thought of being a bygone company is enough driving force overruling the restraining forces for organizational change.

The changes at Microsoft can, however, be looked at from various lens and perspectives. One is through the theoretical models of change while fitting in the practical events and/ or happenstances. Theoretical models of organizational changes include the likes of Lewin's three phases change model (Angel-Sveda, 2012; Hussain, et al., 2018; Parry, et al., 2014), Bullock and Batten's four phase model (Dugdale, 2013; Maon & Lindgreen, 2009; Parry, et al., 2014; Sparr & Peus, 2018), Prosci's five-stage model (Parry & Kirsch, 2014; Schwaba, et al., 2018) Luecke's seven-step model (Arbab, et al., 2014; Cruickshank, 2012; Parry, et al., 2014), Kotter's eight steps model (Kotter, 1995, 2012; Parry & Kirsch, 2014; Sparr & Peus, 2018) and Kanter et al.'s 10 commandments (Arbab, et al., 2014; Slabbert, 2018) among others. One of the earliest models of change is the Lewin's three phases model which consists of three phases namely: unfreezing, moving (or changing) and refreezing. Kurt Lewin (1890 - 1947), a psychologist who is often regarded as the father of modern social psychology, suggested that changes requires three bold steps: unfreezing the organization, implementing the needed change which he called moving or changing and, finally, refreezing the organization after the needed change. Narrating the application of Nadella's work at Microsoft to bringing the needed organizational change through organizational redesign in all required facets is straightforward.

Like Parry, et al. (2014) opined, unfreezing is the phase which concerns the shaking up of people's habitual modes of thinking and behaviour to heighten their awareness of the need for change. This might also include sharing desirable company goals and selectively promoting staff who shared the same vision among others as the situation dictates (Angel-Sveda, 2012; Balogun & Hailey, 2008; Parry, et al., 2014). At Microsoft, this is evident in all the needed facets of the company's existence. Aggregately, Nadella has changed the mission and direction of the company, reorganises the organizational structure and bring in people he believed could help achieve his mission among others. For instance, Nadella first changed the mission and guiding principles of the company: From focusing on short-term financial goal alone to long-term strategy with the statement "Revenue is a lagging indicator, usage is a leading indicator" which he always reinforce on the Microsoft's staff; from the spirit of "know it all" imbibed in the employees to that of "learn it all"; from the belief and slogan "windows first" to "mobile first, cloud first" to show change in strategic re-direction and the press briefing he gave 52 days after his assumption of office which epitomized all these (Microsoft, 2014).

As part of the unfreezing process in Lewin's three phases model of change, Nadella also did a lot of restructuring to Microsoft to make sure this aligns with his set mission; long-term Microsoft Chief Operating Officer, Kevin Turner, left the company which marked a turning point and a paradigm shift from Windows (whose product life-cycle is at the saturated stage) to the ever-growing cloud business.

To further harness this, Judson Althoff and Jean Phillipe Courtois, two people who shared this cloud-centred vision, was put into key positions as Head of worldwide commercial business and head of global sales respectively. Jim Dubois, the Chief Information Officer (CIO) which was elevated to the position in 2013, a year before Nadella became CEO, also left. He was replaced by Kurt DelBene who took a more modern title, Chief Digital Officer (CDO) but nevertheless overtook bulk of his duties in the company¹. Besides replacing some people in key positions, perhaps something more important is the restructuring of the organization's positions to allow for better decision making (Hempel, 2015).

In terms of organizational cultural change at Microsoft as it falls under the unfreezing phase, Nadella's strong belief in two books; *Non-Violent Communication* and *The Growth Mindset*, was very evident and he use this to great extent in his journey to see to the company's organizational change. Confrontations, internal competitions especially across divisions which made Manu made a cartoon of Microsoft and lots more were publicly documented. To change this, Inc reported that one of the first actions Nadella undertook when he became CEO was to hand out the book titled "*Non-Violent Communications*" to all the executives in all the different divisions of the company (Stillman, 2018). All these actions were to shake-up the habitual mode (unfreeze) at Microsoft.

While the earlier stage, the unfreezing stage, tries to set the motion in play by returning the earlier malformed changes back to default, the movement stage is where the actual changes happen (Angel-Sveda, 2012; Balogun & Hailey, 2008; Carnall & Todnem, 2014; Parry, et al., 2014). As such, this could be somewhat blurry as the events between these stages often overlap. As opined by Balogun & Hailey (2008), movement phase is often epitomized by the establishment of new strategies and structures to eventually changed things. The new structures Nadella put in places were further manned by people he believed in like Kurt Delbenne, Judson Althoff and Jean Phillipe Courtious as discussed earlier.

While refreezing, according to As Balogun & Hailey (2008), involves reinforcing the new behaviours in order to maintain the new levels of performance, many researchers have faulted the third stage and argued that contemporary organizations in this turbulent time need to constantly change without necessarily refreezing as that would be counter-intuitive (Angel-Sveda, 2012; Arbab, et al., 2014; Carnall & Todnem, 2014; Parry & Kirsch, 2014). They need to be flexible and adaptable, they all

¹ Please, find the list of the key employees who hold the senior management positions at Microsoft at present at Appendix 1.

inferred. While this is true, it is equally important that these two are not mutually exclusive. An organization might cement the good things it learnt while still re-inventing other ways, the only negative in this regard is in the word “refreezing”, a word that infers otherwise.

3 THE FUTURE NEEDS

With all the aforementioned changes effected, what one change would Microsoft need to effect in the coming five-year period while factoring in the potential market and/ or industry changes?

This is more nuanced but summarily, Microsoft tends to have understood this already and did pledged to spend \$5 billion in the next five years on it. However, Microsoft need to do more as winning here would further entrench them as the biggest company in the world. So, what is it and why?

The answer to the ‘what’ question is Internet of Things (IoT). But why?

Internet of things is one of the next waves of breakout technologies that was predicted by the Forbes Technology Council (2018) who collectively argued it would present a huge market potential. This is in alignment with several predictions like that of Bain Capital who posited that total spending on it would reach \$520 billion by 2021, McKinsey’s position that the cumulative economic impact would reach as much as \$11.1 trillion per year by 2025 and ARM’s market-induced belief that by 2035, there would most possibly a trillion IoT devices (The Economist, 2019). Furthermore, PwC estimated the market value of the global internet of things at \$1.7 trillion with the hardware market slightly dominating with \$585 million market value. This bright and huge market value was further exacerbated by the positive indices coming from macro-environmental and micro-environmental outlooks of the strategic analysis of the market/ industry as depicted in the appendix.

Despite this huge market value as depicted in the figures stated above, there is also an increasing need and the belief that IoT is at the infant stage of the global diffusion and adoption in its lifecycle. In fact, in the evaluation done by The Economist (2019), they argued that computer revolution despite all changes it has brought has just entered another phase with the notable effects of IoT being the third one. According to them, the first computer revolution is at the aftermath of second world war in which computing devices were introduced to the governments and big corporations. The second revolution see it brought the computing devices to ordinary people via desktop PCs, laptops and, more recently, smart phones. The third one, as posited by The Economist (2019) would bring the benefits – and drawbacks – of computerisation to everything else as it becomes embedded in different things that are not themselves computer; from shoes and fridges to clothes and wristwatch.

More so, besides the huge and the incredibly growing market value at a CAGR of 20.3%, the highest in the industry, it is worth noting that not all the use cases could be predicted. Simply put, the

potentiality is massive that it is almost difficult to grapple with. In fact, according to a joint research by Microsoft and BCG, they argued that the market is so big that it might take a decade to play out and people understand all the associated use cases (Bhatia, et al., 2019). This was depicted in the figure below. Despite the heavy research on the predictions, the potential is so big no one has been able to accurately fathom it especially the use cases and the many industries that could spring up. Considering Microsoft missed out on Android, which has 85% of the smart phone – the worst regret of Bill Gate, the founder of Microsoft (Elkins, 2017) – the IoT market can't be missed not only because of the present huge market (1.7 trillion USD), the massive growth predictions (CAGR of 20.3%) but also for the potentiality of the unknown and unfathomable use cases as depicted in the figure below.

Figure 2: Potential Uses Cases for IoT



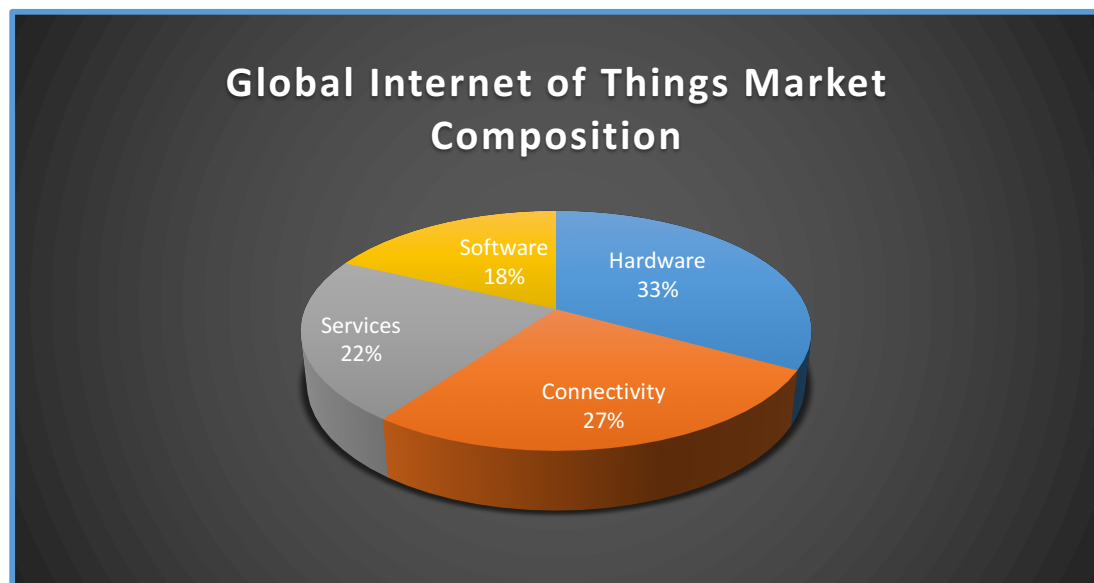
SOURCE: Bhatia, et al. (2019)

With the understanding of the lure of increasing use cases and potential new businesses as depicted in the figure below as well as with the fear of missing out on this, many companies are piling in. And they are doing so in great numbers. Companies such as Intel – with its market-ready solution (Intel, 2019), Dell – with its Dell Intelligent Edge (Dell, 2019), ARMs with Softbank's purchase to drive IoT via his low-power usage microprocessor design blueprint (Meyer, 2016), Huawei - with its IoT communication modules, chips and Huawei LiteOS (Huawei, 2019) as well as Microsoft Inc – with its many offerings (George, 2019) among others are venturing into the IoT business with different premises.

While Microsoft has recognized the need to venture into IoT and backed it up with meaningful actions thus: its partnership with many institutions like SAP, DJI, Carnegie Mellon University and PTC among others (George, 2019); it's investment of \$5billion USD investment into IoT (Whyte, 2018); and their

acquisitions in IoT like that of Express Logic (George, 2019), I am of the opinion they need to do considerably more than building IoT capabilities into their products.

Figure 3: Global IoT Market Composition



Success in this present rapidly growing dispensation requires solving customers' pain-points and intelligently innovating in the direction of the market needs. A look at the present global IoT market share depicted in the diagram above as with some of the nuances in IoT market research indicated some points which will be itemized below thus:

- ✓ 93% of recently surveyed consumers believe manufacturers need to do more to secure their IoT devices (Microsoft, 2019a). This makes security a huge market stake no one is looking at. However, it is not in the security of the devices, but the security of the data generated by the connected devices.
- ✓ Communication and connectivity are few of the main problems of the interconnectedness of several devices. Though theoretically, it takes more than one-fourth of the market share, one might argue that being the market leader in this market segment by being the leading platform which allows for communication between other devices would create an avenue to introduce services and softwares which take 22% and 18% respectively. That's an avenue for a further 40% market share as depicted in the earlier image. It should be noted that Microsoft possibly realized the opportunity here with his purchase of Express Logic (George, 2019), doing this would not guarantee them a win just like Huawei built its own Operating System for IoT (Huawei, 2019), but championing a standard protocol upon which all IoT devices should be made would be made. This is similar to what the big technology companies are doing with

artificial intelligence and the development of the industry standard transmission control protocol/ internet protocol (TCP/ IP) model. Championing this and building the best connectivity product on the standard practice/ model/ protocol means they wouldn't win just a few customers with disjointed needs; they would win big under a single platform those devices can plug into.

Simply put, the change needed right now is a strategic one which is similar to the one they embarked on when Nadella became the CEO and changed the focus of the company from Windows to Cloud.

4 SUMMARY AND CONCLUSION

From “a PC on every desk and in every home, running Microsoft software” to “empower every person and every organization on the planet to achieve more” as missions of Microsoft, there have been several changes at Microsoft. Between these two missions are three CEOs who have ran the company. And while the ingenuity of Bill Gate, Microsoft co-founder, can never be overemphasized, Microsoft almost lost its technology leadership particularly under Steve Balmer who was reluctant to changing things in alignment with industry and market needs. In fact, and as said earlier, many industry leaders believe that Microsoft is a bet “against technological innovation” at the time (Jurvetsen, 2014) owing to sticking to windows without much innovative success outside this. While they are still making profits (Hempel, 2015), they are losing market and the product whose market share they have most of it is losing relevance and market share day in day out (Weinberger, 2019). These were further exacerbated by the in-fighting and battle for supremacy among the staff as depicted in Manu Cornet's satirical cartoon (Carlson, 2012)

Using the force field analysis to depict how the driving forces were too much and easily toppled the restraining forces, Microsoft changed leadership and Nadella became the third CEO of the company in 2014 (Novet, 2019). And five years after, the company's stock has risen by almost 182%, the perception in Silicon Valley has changed and the employees in a secret voting rated him the best CEO, Novet (2019) concluded.

It is however important to emphasize that the changes this report referred to is not the change from Balmer to Nadella as the CEO of the company rather the changes Nadella brought to the company in his capacity as the CEO. So from a mission statement which is restrictive to continuous global success in 21st century to an encompassing one; from a company marred with infightings among staff to one with collaborative efforts; from one which do not collaborate with other industry leaders to one which seeks partnership on mutually beneficial deals; from completely closed-source solutions to acquiring GitHub and open-sourcing some of their softwares; from one with focus on the dying Windows operating system to one with strategic re-direction to cloud; from one with the culture of supremacy

to the culture of openness and continuous growth; Nadella has brought a lot of changes to the organization and these have been succinctly described above.

Despite this huge success in recent times which has made Microsoft the largest company in the world, it is however of the writer's opinion that Microsoft must dedicate more focus on the internet of things market which is not just huge but have unfathomable prospects.

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6 APPENDICES

APPENDIX ONE: SOME MEMBERS OF THE MICROSOFT LEADERSHIP TEAM

Name	Job Title	Board	Compensation
John W. Thompson	Chairman	Executive Board	340000 USD
Annie Parker	Head-Startups	Senior Management	
Kurt DelBene	Chief Digital Officer and Executive Vice President, Corporate Strategy, Core Services Engineering and Operations	Senior Management	
Tatiana Skoko	Director-Croatia and Bosnia and Herzegovina	Senior Management	
Satya Nadella	Chief Executive Officer, Director	Executive Board	20014152 USD
Saif Hilal Al Hosni	Manager-Country - Microsoft Bahrain and Oman	Operational Management	
Emma Barrett	Enterprise Channel Chief - Microsoft New Zealand	Senior Management	

SOURCE: Excerpt from Microsoft (2019b)

APPENDIX TWO: MICRO-ENVIRONMENTAL OUTLOOK OF IoT MARKET

Porter's Five Forces of Global IoT Market

Threats of New Entrants (Verdict: Low)

There is a to low threat of new entrants to the IoT markets across the major segments. This is because entering any of these market segments require huge amount of money investment which is not readily making profit at the moment as much as enormous expertise or intelligent know-

Threats of Substitute Products (Verdict: Low to non-existent)

Substitute product is almost in none-existent. Considering that IoT is not a single technology but a way in which different things would communicate, it's difficult to see a substitute product except if things are done manually

Bargaining Power of Suppliers (Verdict: Moderate to high)

All segments of the IoT market have moderate to high bargaining power of suppliers. If, for instance, the hardware makers do not make their product in such a way it could send signals in a standardized way, say one of the NFCs, then it would pose a problem for connectivity, services and softwares.

More so, hardware IoT makers also have moderate to high bargaining power of supplier because the suppliers' need is quite important.

Bargaining Power of Buyers (Verdict: Low)

Because, if the market is finally mature, the market would most allow for a massive B2C. Of course, the B2B market would also run but having potential billions of buyers would rattle down any huge bargaining chip from any business

Industry Competition (Verdict: Low)

The industry competition can be regarded as very low. At the moment, most of these organizations are trying to battle it out but with different use cases. As such, the industry competition is not that huge at the moment.

APPENDIX THREE: MACRO-ENVIRONMENTAL OUTLOOK OF IoT MARKET

PESTLE Analysis of IoT Market in Relation to Microsoft

Political Factors: Fairly negative

Economic Factors: Positive

Social Factors: No substantial effect

Technology Factors: Substantially positive

POLITICAL

- ✓ The on-going trade war between USA and China could be bad for US companies and this is despite the fact that Microsoft remains only big USA tech companies not embroiled in political brouhaha and litigation.
- ✓ The recently changing in visa requirements would make sourcing for international talent difficult.

ECONOMICAL

- ✓ There is considerable boost in global economy in recent times.
- ✓ Microsoft is large and can easily enjoy the economy of scale.

SOCIAL

- ✓ With over 140000 employees who are not just well-diversified but also included properly, the company can enjoy the perks here.

TECHNOLOGY

- ✓ AI, ML and the recent launch of 5G is driving the adoption of IoT.
- ✓ Technology has a really huge influence on people though.