

LEVEL 7 ASSESSMENT SPECIFICATION

Student name:	Francis Wong	Student ID number:	1917312
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Academic honesty / referencing:	Academic honesty is required. In the main body of your submission you must give credit to authors on whose research and ideas your work is based. Append to your submission a reference list that indicates the books, articles, etc. that you have used, cited or quoted in order to complete this assessment.		

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Abstract

Microsoft has a significant change after Satya is appointed CEO. The share price is six times of his first day as CEO. These changes include turning Microsoft into a mobile-first and cloud-first company, have more collaboration with competitors, embrace open source and Linux. Employees are highly motivated, and innovations are encouraged. It seems that Microsoft are turned upside down. We use different framework and theory to analysis Microsoft under the leadership of Satya Nadella to find out his success and failure or anything important is missed. We have used Kotter's theory to analyze the cultural change, 4 levels of employee engagement to access the level of engagement, we also looked into some of the activities that Microsoft used to engage the employee and also how Microsoft open herself for the collaboration with rivals and to embrace the open source community. All these framework and theory are focused on certain part of the case, so we finally use the 3H framework to analyze the whole picture to find out the success and failure for the changes after Satya Nadella appointed CEO.

The Research Question

Analysis of the Success and Failure in the immediate Post-Succession Changes by Satya Nadella on Microsoft using 3H framework as the leading framework.

Background

Microsoft (MSFT) is a well-known technology company enables digital transformation for the era of an intelligent cloud and an intelligent edge. Its mission is to empower every person and every organization on the planet to achieve more. (Microsoft Corporation, 2020a)

Microsoft Corporation was founded by Bill Gates and Paul Allen on April 4, 1975, nearly 46 years ago. Microsoft developed and sold BASIC interpreters for the Altair 8800. It dominated the PC operating system market with MS-DOS in the mid-1980s, followed by Microsoft Windows and Microsoft Office. (Wikipedia) Time named the Apple II and IBM PC as the "Machine of the Year" in 1982 signify the booming of the home computer or PC market. (Microsoft Corporation, 2020b)

The huge success of Microsoft Windows, Windows Server, Microsoft Office and Xbox, created a culture that Microsoft Windows was the star of the company and should have priority and resources over other product. However, the shipping of PC dropped since 2011, as the raise of smartphones and tablets, the PC market is declining, and it will affect the business of Microsoft Window(Kan, 2020a).

Microsoft under Steve Ballmer's leadership

The first CEO of Microsoft was Bill Gates, one of the founders. He stepped down on January 2000 with Ballmer as the CEO.

According to an analysis by Steven J. Vaughan on ZDNet, a famous IT media, there are five reasons for Ballmer needed to go: (Vaughan-Nichols, 2013)

1) Failure in Windows Vista and Windows 8

Windows Vista was a total failure. Microsoft had to extend Windows XP Home for some time to fight with the Linux netbooks in 2009. The netbooks are a low-end PC market that maybe once been ignored by Ballmer. Microsoft has to release Windows 7 to save the market share. Windows 8 was as bad as Vista, and the Metro interface of Windows 8 is annoying.

2) Uprising of Tablet and Smartphone

The uprising of smartphones and tablets indicating PC is not the only device to connect to the internet, instead smartphones and tablet were more convenience on the move. PC still has its market, but there is no growth. Under the leadership of Steve Ballmer, Microsoft tried and failed to make an impact in the mobile software market. Android is dominating the smartphones. As for tablets, it has a bigger screen than smartphones, Windows 8 should have a better chance, however, Windows 8 did not work out. As for Microsoft's Surface tablets, they are not popular after it is launched. Surface RT did not find a right market and also failed.

3) Failure in Search Engine

Bing is not popular, and the market share is far behind Google Search. Ballmer launched it in May 2009, but up to year 2020, Bing is far behind Google Search.

4) The Corporate Culture of Ranking

Microsoft had adopted a ranking system, that one out of ten should be rank bad, but in fact it is not just as good as the others. Therefore, even the management promoted "One Microsoft", but the reorganization plan was not working out fast enough, different departments, business units were fighting for the top position. The Windows OS group will perform better, as the market is there and mature, but new business may not have the chance to survive, so teams are hesitated to try something new. This ranking system was criticized by employee as unfair and lead to employee turnover.

5) The Investment Market Has No Confident in Ballmer

Steve Ballmer was a good salesman, but was not a good CEO, at least the investors thought so.

Ballmer became the Microsoft CEO in January 2000. At the last day of Gates, the stock was around \$55, and after about half year of Ballmer took up the CEO role (August 22, 2000), MSFT closed at \$35.62. Three years later (August 22, 2013), MSFT closed at \$32.39. Ballmer was not able to give confident to the investors.

Analysts had been screaming to change the CEO, Microsoft's stock has bounced up about 6%, when there was news that Ballmer is leaving.

Whether a CEO can stay in his office, it depends on the Board of Director and the shareholders. Therefore, from the point 5 above, it is unavoidable that he needs to leave his office. However, it is unfair to see Ballmer as an incompetent executive. In contrast, Ballmer has significant contributions to Microsoft under his leadership. (Jackson, 2018)

- He acted as a transition from the old Microsoft to the new Microsoft, from a company focused on desktop PC software to a cloud first company. Without Ballmer's decision, Microsoft Azure cloud or Office 365 will never exist in the first place. At that time, the financial return was not obvious in cloud-based software services, such as Amazon Web Services, and Salesforce.
- Ballmer had given Satya the necessary resources to lead the cloud group and showed his performance, which contributed to his appointment as CEO. Without these necessary resources, Satya will never be able to make it.
- Ballmer received much critics for a \$240 million investment in Facebook at a \$15 billion valuation. He was challenged for an exceptionally high valuation for a three-and-a-half-year-old company. Although Microsoft later sold its share and is no longer a shareholder, but the decision is not bad, Facebook is now worth 4 times the valuation and is over \$500 billion.
- Although Ballmer have failed in a number of areas listed above, he made a lot of money for shareholders. He acquired a number of patents, so that he never had to overpay for patents. He made the Microsoft today by pointing the company in the right directions.
- Ballmer is still one of the major shareholders even after he stepped down from CEO in 2014. As one of the company's first 30 employees and appointed CEO after Bill Gates, Ballmer said he owns 333 million Microsoft (MSFT) shares or about 4% of the company, which is more than anyone except index funds. He also planned to hold "for the foreseeable future" a position of influence. (Pagliery, 2014)

The Change of Microsoft's leadership

In view of the above situations, Ballmer decided to step down as CEO. Microsoft announced on February 4, 2014 that its board of Directors has appointed Satya Nadella as CEO and a member of the Board of Director. Satya previously worked in Microsoft's Cloud and Enterprise group as the Executive Vice President. Bill Gates said "Satya is a proven leader with hard-core engineering skills, business vision and the ability to bring people together. "(Microsoft Corporation, 2014a)

Satya's had overseen one of the fastest-growing divisions Microsoft, the Cloud and Enterprise Group, and helped to move Microsoft's server and tools group to a faster, more agile development model and no longer needed an 18-month long release cycle. He was a key player to shift the business focus to SAAS (software as a services) and cloud platform. (Cooper, 2014)

Although he had a good result from the cloud business, it was not easy for Satya to manage the whole Microsoft group under a bad situation. He sent email to all employees on the first day as CEO. He mentioned that the technology industry does not respect tradition, it only respects innovation. He committed to drive Microsoft thrives in a mobile and cloud-first world. He sent an email to all employees on March 31, 2014 to emphasis that he will turn Microsoft into a mobile-first, cloud-first technology company. (Microsoft Corporation, 2014b)

Satya used more than one year to familiar with the job as CEO, set up his own team, investigated the whole Microsoft business and those projects that were running before he was the CEO. His next email to all employees was issued on June 17, 2015. This email told all employees about the new structure of the group and new leader roles.

Microsoft under Satya Nadella's leadership

In his email "Aligning Our Strategy & Structure" on June 17, 2015, Satya announced his decision on the organization structure, and different leadership roles. Satya had a year to engage his team and discuss with related employees to finalize his plan. However, his team left Microsoft very soon after he reorganize different business, some of them had been worked in Microsoft for a very long time. Microsoft lost these talents. The loss of executives was easier to notice, turnover of employee under executive grade was not easily been noticed.

Under the leadership of Ballmer, Microsoft had launched program "One Microsoft" in July 2013. This program prompted a sweeping revamp of Microsoft's core organization structure. This program also envisioned a truly unified OS experience across different devices, such as smartphone, tablet, notebook,

desktop PC and TV. It was expected that different BU in Microsoft will be collaborated together. (Chacos, 2013), however, the program was not roll out as fast as the Board of Directors expected.

Satya was chosen by his technical background and his people skill, mentioned by Bill Gates in an email announcing Satya to take up the CEO role. (Microsoft Corporation, 2014a)

Performance of Microsoft after Satya Nadella

As at 2020, that is six years after Satya Nadella be appointed CEO, Microsoft is wildly successful by most measure. To value the performance, share price is definitely a good metric. Following figure is the 6 years movement of stock price of Microsoft since Nadella was appointed CEO. The stock price was USD40.99 in 2014 and gone up to USD204.03 in Sep 2020, which is about 5 times in about 6 years, even after a drop of price recently, the highest price within this 6 years is USD225.00, which is about 5.5 times. Shareholders should be happy with such a ROI. Of course, one may argue that stock price may not reflect the performance of the company, but it is the only way to reflect the ROI of investors.



Figure 1 - Microsoft Corporation Share price (Feb 4, 2014 - Sep 13, 2020), Source: Yahoo! finance

What has Satya Nadella done?

Nadella took his CEO at a time when technology shift away from an old model — The IT solution only work with its own sister products. Example is if you choose the accounting system from one vendor, then you can only buy the human resources system from the same vendor, in order to enable two system can

work together, you may also need to purchase the tablet from the same vendor for mobile use of the two systems. The new model is that the customers can subscribe to cloud services from different vendors and the system can be used together without significant modifications.

Furthermore, the uprising of the Consumerization of IT, where purchase decision was shifting from centralized IT or administrative departments to individual users and teams.

The shift in the purchase decision probably began long ago and before Nadella was appointed CEO, but perhaps Nadella saw it and have the determination to turn the battleship that was Microsoft Corporation. Nadella seemed to manage those, shifting priorities, and reorganizing the company over time. Results did not come without the pain, including to have let go thousands of people in 2017. Long-time executives like COO Kevin Turner and head of Windows and devices, Terry Myerson, decide to leave the company.

But Microsoft changed from an all-Microsoft, all-the-time kind of approach to one that recognized it was important to work across platforms and to partner widely for the sake of the customers. To show how serious he was, Nadella even appeared at Dreamforce, Salesforce's major customer conference.

Nadella has a new vision of cooperation, compete, and cooperate at the same time. He cooperates where it made sense, because customers demanded it, it is all about the customer. He also recognized to make customers happy, he had to partner when it made sense.

The New Corporate Culture

Satya has implemented a new corporate culture in Microsoft with 4 characteristics.

Learn-it-all mentality (Growth Mindset)

Historically, Microsoft's has a 'know-it-all' culture, Satya changed it into 'learn-it-all' ("The Growth Mindset"). The new Microsoft culture accepted that no one could know everything about the industry and their specialty. This culture also encouraged its employee, at all levels, to have an open mind towards learning new skill and try out new ideas. (McCracken, 2018) The growth mindset is most significant changes to the corporate culture and an enabler of innovation.

Openness

Satya stated in an interview he welcomes anyone to tell him anything. (Lebowitz, 2015)

Value for innovation

Microsoft was often criticized for lack of innovations in its product portfolio under Ballmer. Satya using the growth mindset, not only encouraged the learn-it-all mentality, but also encourage experiment as a learning process.

Diversity and inclusion

Microsoft tried to promote to all stakeholders the culture of diversity and inclusion through multiple communication channels. (McIntyre, 2019)

For the growth mindset, Satya had published his book “Hit Refresh” co-authored with Greg Shaw and Jill Tracie Nichols talked about the “Growth Mindset”. He told an inside story of how a company transforming everything from culture to their fiercely competitive landscape and industry partnerships and rediscovered its soul. Nadella concluded with his vision for the coming wave of technology and by exploring the potential impact to society and delivering call to action for world leaders. (Nadella, Shaw and Nichols, 2018) In an interview with Caixin Media, Satya said his Growth Mindset is inspired by a book written by Stanford psychologist Carol Dweck, “Mindset: The New Psychology of Success”. (Bariso, 2019)

Satya had said in his email that the technology industry did not respect tradition, but respect innovation. To enable an organization to have innovation, attempts should be encouraged as mentioned in Dweck’s Mindset, “Everyone can change and grow through application and experience.” (Dweck, 2007)

In the same interview with Caixin Media, Satya described the concept “Growth Mindset” as “very simple”.

The Growth Mindset can be considered as the guiding principles of Satya’s view on management. Therefore, it is worth to look into it in more detail. The followings are the Growth Mindset explained by Satya Nadella. (Bariso, 2018)

Never stop learning

Nadella mentioned in the interview that if you consider yourself an expert, then you will stop learning. As you thought there is nothing new to you in this area. Therefore, one should keep the continuous process of renewal.

Keep looking forward and Learn from the past

Nadella mentioned in the interview that the past has been happened, the way to go forward is to ask yourself what you are going to do tomorrow and the day after.

Encourage Experiment

A true learning should go through experimentation and mistakes. In contrast, if people feel safe to share new ideas and try new things, it will encourage the culture of learning and growth.

A real-life example is at Microsoft a couple of years ago, a Twitter bot named Tay is launched. The goal of this exercise is to experiment how AI communicates with real people in real time. But things quickly went wrong because hackers manipulated Tay to say racist profanity. Tay was shut down after just 16 hours, and Microsoft issued an official apology. The key lesson is to learn from the failure and to see how to do it better next time. Nadella expressed that he would keep pushing and will be with his team. The key is to keep learning and improving.

The benefit of the Growth Mindset

The growth mindset enables innovations. Microsoft's annual hackathon is one example of a growth mindset in action. Chances will be given to employees, who have an idea, or a hack, to form a team to develop a business plan and pitch it company-wide. Funding will be given to develop their projects, and some move into leadership roles, even if these employees have no management career track.

Analysis of cultural change using Kotter's theory

The cultural change of any organization is a critical task, it involved significant planning and implementation. There is no public information on the framework Nadella has used or whether he has any framework on his mind. We apply the Kotter's theory as the framework to examine the change process.

The 8-Step Process for Leading Change was developed from Dr. Kotter's observations, over four decades, of countless leaders and organizations as they were trying to transform or execute their strategies. Based on these observations, he extracted and identified the success factors and compiled them into a methodology, the 8-Step Process for Leading Change. (Kotter Inc, 2020)



Figure 2 - 8 steps of Kotter's theory, Source: process.st

Let's analysis the situation for the cultural change of Microsoft.

Create a sense of urgency

First you need to have a sense of urgency for your change – this will provide the initial traction you will need to get your team on board and motivated to adapt.

From the background of this case, the rise of smartphone as the primary computing device threatened the growth of PC market, the worst thing is the PC market is declining (Kan, 2020b). Microsoft seems to have no relevance in the smartphone market. The failure of Windows Vista and Windows 8 indicating a decline of the technology giant. The stock price declined significantly compared with the time when Bill Gates was the CEO. All these situations are well known to the employees and stakeholders and created a sense of urgency for the changes.

Build a core coalition

Satya took a year to plan his work and formed his team for the change. He is expected by the Board of Director, the employees, and the investors to change Microsoft. Unlike other cases, Satya did not need to convince the stakeholders to change. In this case, it is not about the reason to change, but how to change and what changes are needed.

In the email on June 17, 2015 on aligning engineering to strategy, Satya had reorganized the business units and appointed new leaders role to support him for the changes, however, this step did not carried

out perfectly, key senior executives left, indicating problems in employee engagements. A detail analysis of employee engagement is carried out in later section of this report.

Form a strategic vision

The vision for Microsoft is to empower everyone to do more and work less. Satya had reorganized different business units, to implement his strategy for Microsoft to be a mobile-first and cloud-first technology company. Satya stated in his first email to all employee on first day as CEO that “Many companies aspire to change the world. But very few have all the elements required: talent, resources, and perseverance. Microsoft has proven that it has all three in abundance. And as the new CEO, I can’t ask for a better foundation.” For Microsoft, the vision is very clear. Satya had showed his confidence to the success of the changes.

Get everyone on board

Now it is time to share the idea for change to the rest of the organization, including the front-line employees. Satya had organized a **Q and A meeting** the day after each email to ALL Employees. The section is a chance to provide face to face contact to all employees in Redmond to address their concerns. Although there is no public information on these Q and A meeting, the meeting itself can address the concerns of all employee and engage them to the changes. It is unavoidable to affect the benefit of individual employee for greater good, so having a face to face contact will be able to help address these problems and balance individual benefit and overall benefit.

There are also a number of **focus group** in the company to ensure the voices of employees are received by the management. (Nadella, Shaw and Nichols, 2018)

Employees and Board of Directors are internal parties and can be easily connected, however, other stakeholders are not easy to be connected, therefore, Satya had published a book “Hit Refresh” co-authored with Greg Shaw and Jill Tracie Nichols. The book may influent the general public, scholars, business partners, consumers and other professionals in the industry all over the world. The book has ranked 4.5 out of 5 in Amazon with 85% of customer rated 4-5 stars.

In this sense, Satya had really got everyone on earth on board and created a totally new image and hope.

Remove barriers and reduce friction

Satya had re-organized the business units of the organization to ensure the implementation of the change. It will remove certain barriers and reduce fiction. Re-organize the business units also enable better collaborations. The best part is Microsoft has talent, resources, and perseverance.

Generate short-term wins

After deploying the changes, one must be aware that the initial momentum to change will not last long. Instead, one needed to make sure there are short-term wins associated with the changes that you can present and praise employee for. It was also to show to the stakeholder that the direction of change is correct, so to get their support and understandings.

Under Satya's leadership, Microsoft becomes a cloud computing giant by shifting the business to its Azure platform. Microsoft had re-organized the company and the company's global marketing and sales team had a significant jobs cut. (Palmer, 2017)

Wall Street had been excited for Satya, too. Share price of Microsoft in 2017, since Satya became CEO, has been more than doubled. The continued success in the cloud, made most of Microsoft's investors are expecting a strong growth. (Palmer, 2017) In 2020, the share price of Microsoft is six times of the that when Satya is appointed CEO.

Microsoft and Apple had been in competition for several decades, but Satya had simmered down the rivalry. In 2014, Microsoft announced in 2014 that its Office apps would be available on the iPad. At Apple's WWDC event a year later, Kirk Koenigsbauer, corporate vice president of Office 365 was on stage. Satya made a big surprise when he demonstrated a new Outlook app on an iPhone at Salesforce.com Inc.'s Dreamforce event in 2015.

Another achievement was the purchase of LinkedIn and it runs well, although the Wall Street has some reservations when Microsoft announced the acquisition. Moody's Investors Service placed Microsoft's "AAA" rating under review for downgrade. (Rooney, 2016) LinkedIn's revenue growth was now much higher than it was when Microsoft bought it. (Jhonsa, 2018) All these achievements strengthened the support internally and externally.

Sustain acceleration

In this stage, the focus was to sustain the momentum that you generated for your changes. If the changes are successful, the acceleration can carry you far enough that the changes become the new norm. Satya had a very good start, and have several achievements, as mentioned above, sustaining the change will not be a problem, especially with the support from the Wall Street.

Set the changes in stone

It is still early to say that how far the changes can go as a cloud-first and mobile first company, however, from people management point of view, the growth mindset ignited the employees' hope to contribute

to innovation and empower the everyone in the world to do more. In fact, under the growth mindset, there is no final destination, but forever growing, that is changing. Having several achievements, all stake holders will have confidence in the management team and the employees are rewarded, it will further reinforce the change to take place. Once the employee is engaged, they will have happiness at their work and further drive the improvement. (Puff, 2017)

The author of Employee's Survival Guide to Change, Jerry M. Hiatt, stated that:

"Most employees, when targets of change, experience these feelings and concerns. What most employees do not know is that they play a key role in the success of change.

In fact, the more informed you are as an employee about the change process, the more likely you will not only survive the change but thrive in a changing environment."

Using the Kotter's 8-step process to analysis the cultural change process of Microsoft under the Satya's leadership, the result is that the Microsoft's process, can fit in the Kotter's theory and nearly all steps in the theory are well satisfied, except in the step of "get everyone on board". We found that during this cultural change, employee engagement has much room to improve.

The Employee Engagement

Employee engagement is the emotional attachment employees feel towards their place of work, job role, position within the company and this attachment has impact on wellbeing and productivity of the employee. (HRZone, no date)

Engaged employee feels that their efforts will make a difference to the performance of the company. An engaged employee stays with the organization is not just because of the salary, but the overall success of the company. (Kenton, 2018)

Kenton further stated that according to Society of Human Resource Management, there are some characteristics for an engaged employee, including: (Kenton, 2018)

- They understand their job demands, their role, and they want to do it.
- They are self-driven, productive, and loyal to their employer.
- They know how to work toward the success of their organization and are motivated to work toward it.
- They are connected emotionally and rationally to their organization and motivated to perform at a high level.

Employees today had increased bargaining power because of the internet age, the job market is highly transparent, and a lot of information are public, such as job vacancy, the compensation package and the rating of employer by employees. Attracting highly-skilled workers is a very competitive activity. (Bersin, 2015)

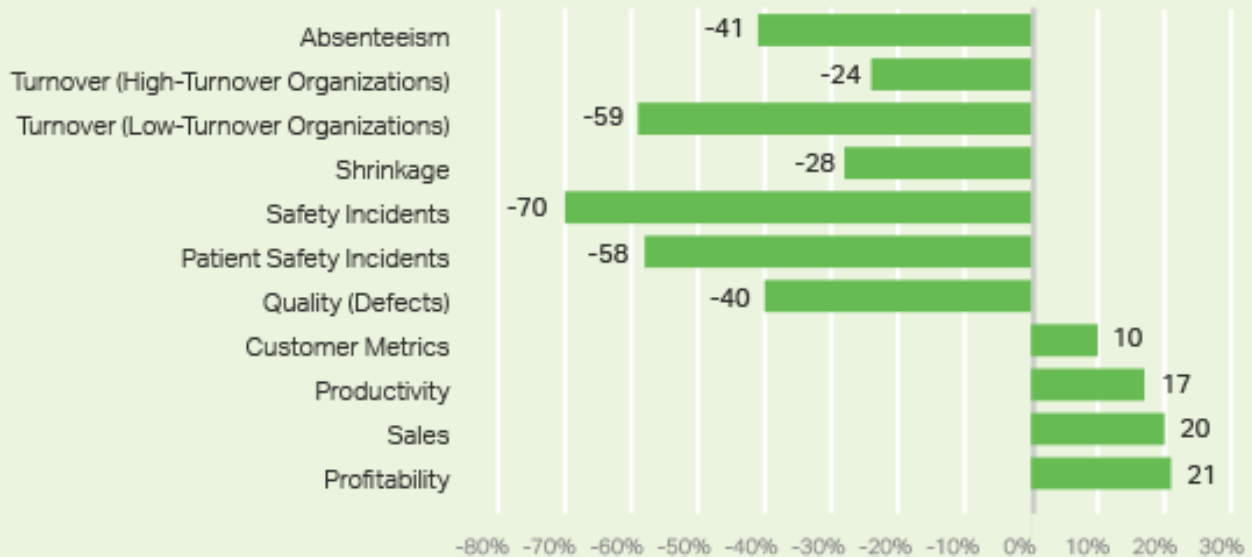
Bersin further stated, in the Deloitte Review Issue 16, that the issues of “staff engagement and retention” had risen to number 2 priority of business leaders, second to the challenge of building global leadership. In the high-technology industry, 2/3 of the workers believed they could find a better job in less than 2 months. (Bersin, 2015)

Microsoft, as a technology company, will also face the problem of employee turnover. Gallup had studied 82,248 work units, including nearly 1.8 million employees in 2016, using 339 research studies across 230 organizations in 49 industries and 73 countries. Research showed that the engagement effect will significantly affect the business outcome. Regarding the employee turnover, for high-turnover organization, employee engagement reduces employee turnover by 24%, and 59% in low-turnover organization. (Gallup, 2014)

A diagram of Engagement’s Effect on Key Business Outcomes is shown:

Engagement's Effect on Key Business Outcomes

When compared with business units in the bottom quartile of engagement, those in the top quartile realize improvements in the following areas:



GALLUP

Figure 3 - Engagement's Effect on Key Business Outcomes, Source: Gallup

The engagement issue with the cultural change

Any changes may lead to some pain, this was the reason, that stated in the 8-step process, to first engage a team and then everyone. If the employees are highly engaged, they will work for the success of the company.

An analysis of the executive's turnover since June 17, 2015, the date Satya announced the cultural change and the new leaders' role on his email, up to September 12, 2020 was listed. This analysis showed the turnover of executives during the cultural change process. A list of all the emails, up to September 12, 2020, to all employees since Satya as the CEO was listed for reference. These emails are found from the Microsoft official portal.

Table 1 - List of emails sent to all employee by Satya Nadella, Source: Microsoft

Date	Subject	Link
Feb 4, 2014	Satya Nadella email to employees on first day as CEO	https://news.microsoft.com/2014/02/04/satya-nadella-email-to-employees-on-first-day-as-ceo/

March 31, 2014	Satya Nadella email to employees on tuning our organization	https://news.microsoft.com/2014/03/31/satya-nadella-email-to-employees-on-tuning-our-organization/
October 9, 2014	Satya Nadella email to employees: RE: Grace Hopper Conference	https://news.microsoft.com/2014/10/09/satya-nadella-email-to-employees-re-grace-hopper-conference/
July 10, 2014	Satya Nadella to employees: 'Bold ambition and our core'(No content on web)	https://news.microsoft.com/2014/07/10/satya-nadella-to-employees-bold-ambition-and-our-core/
June 17, 2015	Satya Nadella email to employees on aligning engineering to strategy	https://news.microsoft.com/2015/06/17/satya-nadella-email-to-employees-on-aligning-engineering-to-strategy/
July 8, 2015	Satya Nadella email to employees on sharpening business focus	https://news.microsoft.com/2015/07/08/satya-nadella-email-to-employees-on-sharpening-business-focus/
June 13, 2016	Satya Nadella email to employees on acquisition of LinkedIn	https://news.microsoft.com/2016/06/13/satya-nadella-email-to-employees-on-acquisition-of-linkedin/
July 7, 2016	Satya Nadella email to employees: Senior leadership team update	https://news.microsoft.com/2016/07/07/satya-nadella-email-to-employees-senior-leadership-team-update/
March 29, 2018	Satya Nadella email to employees: Embracing our future: Intelligent Cloud and Intelligent Edge	https://news.microsoft.com/2018/03/29/satya-nadella-email-to-employees-embracing-our-future-intelligent-cloud-and-intelligent-edge/

Employees turnover is a loss to the company, as the company had put resources to train them, such as engage supervisors to train them and the knowledge loss. The cost of resources to train the employee and to find a replacement can be easily quantified, but the cost of loss of productivity will not be easily measured. The employee turnover itself will also have influence on the company engagement effort that cannot easily be measured. (Davis, 2018)

According to an interview of HR Daily Advisor with Ari Bixhorn, VP of marketing at Panopto, an online video platform spinout from Carnegie Mellon University (CMU), according to a research by Panopto, employee knowledge consists of standard knowledge (58%) and unique knowledge (42%). standard knowledge is able to be obtained from the replacement of the job, but unique knowledge is very hard to be kept and should be developed from zero by the replacement of the job. (Davis, 2018)

The company's standard knowledge, according to Bixhorn, refers to the fundamental knowledge of the job position, that is, the things you would expect anyone qualified for the role to know. For example, solid knowledge of accounting rules and regulations, company laws and taxation are reasonable assumed for any accountant. (Davis, 2018)

Unique knowledge refers to knowledge from our own individual professional and personal experiences gained from our lives and career. The programmer who developed the program code for a particular function in a product, may have knowledge on the reason for a specific coding design, which a replacement will take some time to find out. (Davis, 2018)

Therefore, engaged employees are definitely more productive than their disengaged peers and disengaged employees are more likely to leave and cost loss to the company. (McCrimmon, 2009)

Principles and four levels for employee engagement

There are two principles to decide which employee should be engaged. First, no single engagement tactic will work with all employees, so one may need to try and measure the feedback. Second, from a cost and benefit point of view, the greatest payoff should target those can have most value added or those will be mostly motivated by it. (McCrimmon, 2009)

Level One – Basic Engagement

Level One engagement uses motivational factors that we are familiar with, such as good supervision, clear direction, career development, open communication, empowerment, recognition and creating a great place to work. Such initiatives all involve doing something for employees and are thus paternalistic.

Level Two - Employees as Services Suppliers

Level Two engagement requires to encourage employees to think of themselves as suppliers of services, and as running their own businesses. Employees should be trained on how to develop and market their businesses for themselves and learn to see their managers as customers. Such business development involves a creative thinking about different ways to add value for them and being proactive to keep abreast of the needs of key internal customers.

If employees are willing to accept more pay for taking on extra responsibilities, they might have a feeling of ownership that small business owners may feel and have greater initiative to improve organizational performance. It will enable employees to be less dependent on managers to spoon-feed them.

Level Three - Engaging Leadership

Level three engagement requires a deeper culture change because it asks managers to fundamentally reframe how they see their roles. It goes beyond level two engagement by encouraging managers to be more proactive in seeking input from employees, but it also puts more pressure on employees to do more thinking and be less content to merely follow directions.

Level Four - Beyond Ownership to Passion

Level four engagement involves reframing the employees' contribution as bottom-up leadership, instead of treating employee ideas just as good suggestions. While managers need to develop more receptivity to being challenged, greater confidence is thus required of employees to challenge their bosses.

Employee engagement requires to change the way of work and the relationships between manager and subordinates. Therefore, the employment engagement for manager and subordinates may be different. Managers must rethink their role and the employee should be trained to equip enough hard skill and soft skill to the new role.

Some Microsoft's Employee Engagement Activities

Corporate Mission and employment sense of belongings

Microsoft had events for employee engagement. Microsoft Ready was an event for internal employees, running parallel to Microsoft's partner focused Inspire. According to a blog from one of the Microsoft employees, during the event, Microsoft share successful cases to partners and internal staff, it reaffirmed their belief in the Microsoft ethos – that their technology is designed to empower everyone. The examples mentioned in the blog were how technology transform and grow a small business and how technology improve healthcare for remote African villages. (Taibi, 2019)

The event provided a chance to connect with old and new colleagues and to discuss new ideas. Each session welcome feedback from employees to encourage participation. The blog author, Nas Taibi, stated that the organizing of this event was also an employee engagement activity. (Taibi, 2019)

Corporate Social Responsibility, Employer branding and Employee's contribution to make a difference to the community.

Microsoft had been one of the largest corporate philanthropies in the United States and across the world. (Optimy, 2017) This corporate social responsibility program was also an employee engagement activity. Microsoft matched the employees' donations one to one, that is every dollar the employee donated to a charity of his choice, Microsoft will donate the same amount to that organization with a maximum amount limitation. (Microsoft Corporation, 1998) Microsoft also supported her employee to do volunteer work.

Some statistics for US employees in 2019 are obtained from Microsoft official portal.

- USD \$181 million in employee donations, inclusive of company match
- 825,000 employee volunteer hours
- 23,500 nonprofits and schools supported
- 77% employee participation

Employee engagement and Innovation

Microsoft had set up her first research laboratory in 1991 (Microsoft Corporation, 2011) and now has 11 research laboratories around the world, according to Microsoft Research Official portal. These laboratories were intended to advance state of art computing and solve world problems through technological innovation in collaboration with academic, government, and industry researchers. Between 2010 to 2018, there are 154,000 AI patents were filed worldwide, with Microsoft have 20% of the patents. (Wikipedia, 2020)

Open Invention Network ("OIN") is the largest patent non-aggression community in history and represents a core set of open-source intellectual-property values. Its members include Google, IBM, Red Hat, and SUSE. The OIN patent license and member cross-licenses are available royalty-free to anyone who joins the OIN community. (Vaughan-Nichols, 2018)

From the licenses of entire Microsoft patents to OIN, it showed that Microsoft had some 60,000 patents with 30,000 patents pending for approval, these licenses covered the Linux System and Android System. Microsoft confirmed that she will license ALL patents once they are approved. (Vaughan-Nichols, 2018) The policy to license all patent to OIN motivated Microsoft's employee and developers to use and deliver the customers the most suitable technologies, instead of taking side on Microsoft or open source technologies.

Microsoft Research are mostly academic research, which may be far from being a marketable product. Under Ballmer's leadership, Microsoft employees must bundle up and go to Seattle's Safeco Field, each fall for many years, to listen to the senior executives' talk to inspire them with the company's future and vision. (Bishop, 2014)

Satya replaced that tradition with a new one. He started a hackathon of 38.5 hours to bring more than 10 thousand employees together to work on a wide variety of projects from across the company. Employees should sign up for projects, based on ideas posted by team leaders, before attending the hackathon. The winning team will be able to meet Satya for an hour to talk the project's potential future at the company. (Bishop, 2014) It was good for Microsoft to have all these activities to engage the employee and benefit to the company and the community.

These employee engagement activities enabled employee to participate, enhance sense of belonging, encourage employee to provide solutions to problems to make the products better and even finance them to lead and run a new project. From these examples, Microsoft are able to engage employees in different pay grade, business functions and interests up to Level Four engagement.

[Employer Company rating for Microsoft](#)

Microsoft has various engagement activities, how the employees feels about working in this company is a way to measure the effectiveness of these activities. According to Glassdoor, a major job search engine and review site, Microsoft was rated 4.2 out of 5, as at 24 Feb 2020. (Glassdoor, 2020)

Microsoft Ratings and Trends

About Glassdoor ratings

Ratings may vary depending on what filters are applied, but ratings include reviews in all languages. [Learn More](#)

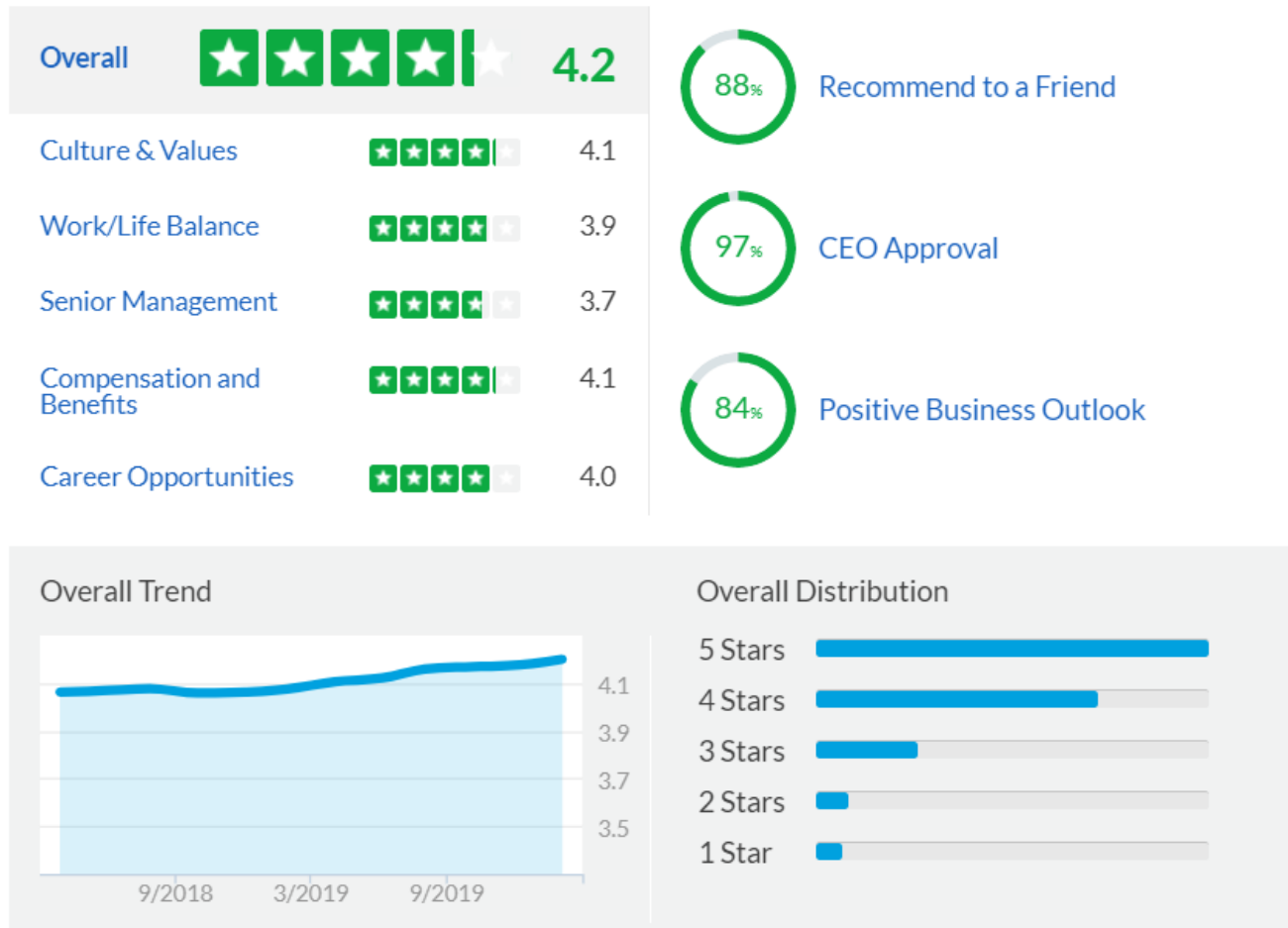


Figure 4 - Microsoft Ratings and Trends (Feb 24, 2020), Source: Glassdoor

Company ratings are based on a 5-point scale:

- - 1.50 Employees are "Very Dissatisfied"
- 1.51 - 2.50 Employees are "Dissatisfied"
- 2.51 - 3.50 Employees say it is "OK"
- 3.51 - 4.00 Employees are "Satisfied"
- 4.01 - 5.00 Employees are "Very Satisfied"

Microsoft received 4.2 out of 5, indicating the employees are very satisfied with the company. 88% of the reviewers are willing to recommend Microsoft to a friend as an employer. 97% reviewers approved the CEO, Satya, indicating employees approve his leadership. In fact, Satya has been awarded Best 10 CEOs in America in 2019 by Glassdoor. (Connley, 2019) 84% of the reviewers have positive Business Outlook. The overall points can be further break down into 5 categories, namely Career Opportunities (4.0), Compensation & Benefits (4.1), Work-life balance (3.9), Senior Management (3.7) and Culture & Values (4.1). Among these five categories, senior management is the lowest at 3.7. It seems that the weakest link in employee engagement is in the senior management.

Level three engagement is about engage leaderships, from the activities mentioned above, employees are engaged as a whole. However, whether the activities also able to engage the executive team is questionable. Information on activities only for executive's engagement are not known from public information or official portal. Any analysis has been done on the executive team/leaders to see whether the team is highly engaged based on the executive turnover since Satya announced the change of culture and new leaders' role.

A general employee may cause so much loss for Microsoft's turnover, how about the turnover of senior executive? Following is a list of executives and leaders left Microsoft with their years of service since the announcement of the cultural change.

Table 2 - List of executives and leaders left Microsoft since the culture changes, Source: Satya Nadella's email and Individual LinkedIn Profile

Name	Last Post	Responsibility	Left Date	Years of Service
Mike Angiulo	Corporate VP	leading Xbox hardware, Cloud and AI	Apr 2018	9 years 10 months
Terry Myerson	Executive VP	Windows and Devices Group (WDG)	Sep 2018	21 years 7 months
Qi Lu	Executive VP	Applications and Services Group (ASG)+ Education Solutions	Sep 2016	7 years 9 months
Kevin Turner	Chief Operating Officer		Jul 2016	11 years

Jill Tracie	Chief of Staff		Feb 2017	12 years 10 months
Stephen Elop	Executive VP	Devices Group	Jul 2015	8 years 9 months
Kirill Tatarinov	President, EVP, CVP	Business Solutions	Oct 2015	13 years 4 months
Eric Rudder	Executive VP	Advanced technology and education efforts	Oct 2015	27 years 3 months
Mark Penn	EVP and Chief Strategy Officer	Design new business and marketing models to his work in data analytics	Aug 2015	3 years 1 months
Joseph Sirosh	CVP and CTO of AI	AI Cognitive Services & Platform	Dec 2018	5 years 6 months

From the list above, most of these executives had served Microsoft for a long time, half of them are more than 10 years. The company had invested resources to train up an executive, it would be a loss if they left the company. We notice these employees' turnover just because they are executives. Microsoft has announced their replacements. Turnover of employees below their pay grade may not be noticed easily, because no announcement has been made and it is quite hard to track.

Senior executives held to run the business, but at the same time they are also employees of the company, they need to be engaged. From employee engagement point of view, CEO and the executive team should be the role model to all employees. (Cutting Edge, 2020) Consider the feeling of employees, they are engaged because they have trust in the company and the management, however, the executive team leave the company one by one. The employees will be in doubt of the commitment of the executives to the cultural change, and the sustainability of the change. It will neutralize the engagement effort and may even disengage the employees.

It may indicate that the senior executives in Microsoft are not well engaged. The reason for leaving Microsoft is not known to the public. For this level of employees, Level Four engagement is very important. They are all leaders and they also need to engage their team. If they are not well engaged, they may also not be able to well engage their team.

In the above analysis, we have used Kotter's theory to analyze the cultural change, we also used the Growth Mindset to review the changes that Satya brought to the Microsoft and the strategy he will use.

We further analyze the employee engagement effort Satya has carried out. It can be easily noticed that the changes that Satya brought to Microsoft is not just on talent resources, but also on ways to do business and motivate innovation. The above analysis is carried out under different angles and areas, in these connections, we can use a holistic approach to analyze the effort Satya has done so far under the whole picture.

What is 3-H framework?

3-H framework is a holistic solution to manage people and the organization issues. It means that all 3H domain (Heart, Head and Hand) have to be effectively and efficiently managed and synergistically integrated in order to create the best performance of an organization. Few organizations can sustain long-term competitiveness if they could only excel in partial conditions of the 3H framework. (Eddie Yu, 2020b)

According to the 3-H framework, organizational performance is a function of the complements among Heart (H1), Head (H2) and Hand (H3) domains. Therefore, the framework can be illustrated as:

$$OP = f(H1cH2cH3)$$

OP = Organization Performance

c = Complement to integrate and connect

H1 = Heart domain (emotional appeal, leading, motivating, and engaging people abilities)

H2 = Head domain (logical & strategic appeal, planning, organizational, cognitive abilities)

H3 = Hand domain (competence appeal, operational/functional abilities)

1. Effective leadership (H1), which motivates and engages employees is necessary but not sufficient condition for effective and efficient organizational performance.
2. Effective strategy (H2) is necessary but not sufficient condition for effective and efficient organizational performance.
3. Workforce competence (H3) is necessary but not sufficient condition for effective and efficient organizational performance.
4. Synthesis among domains of H1, H2 and H3 collaboration shall secure the necessary and sufficient condition for effective and efficient organizational performance. Case 4 in the diagram below illustrates the condition.

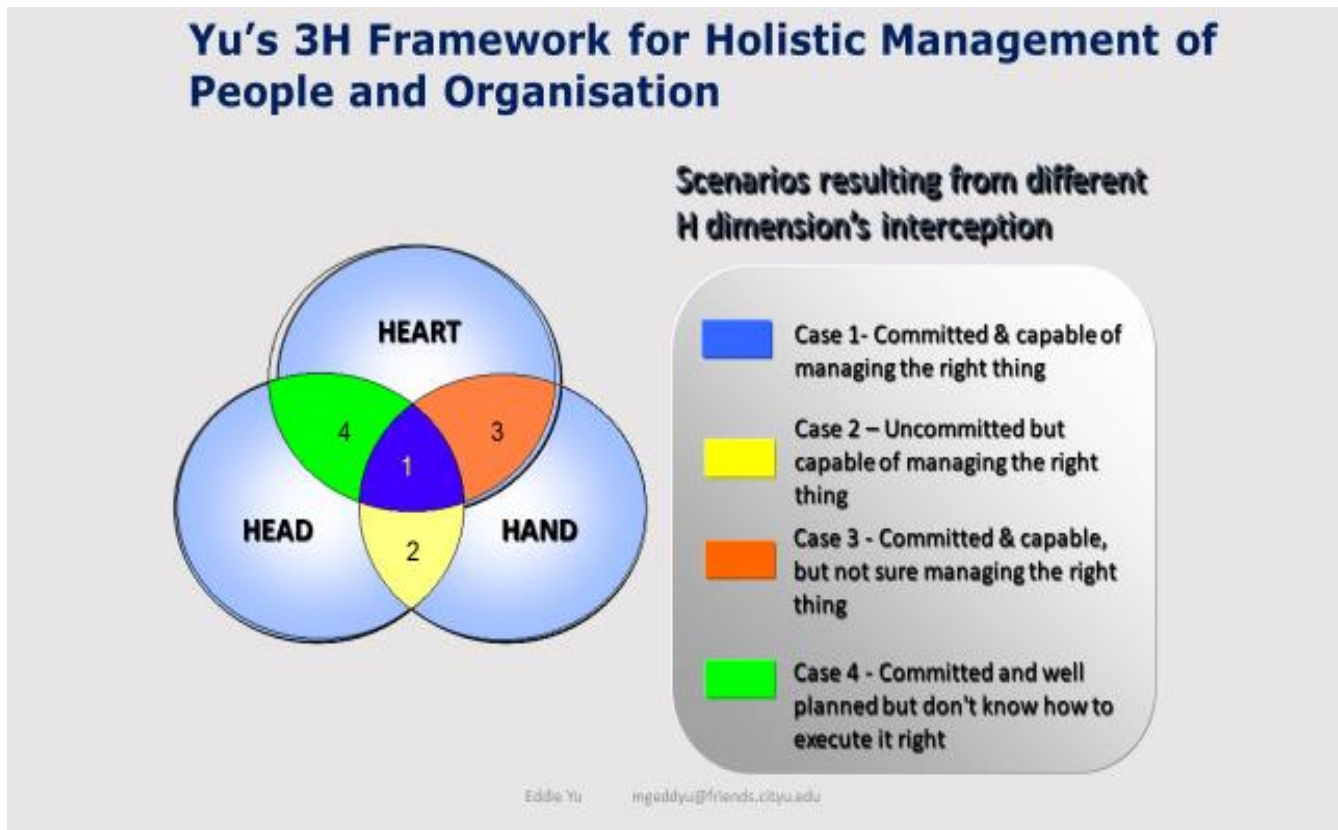


Figure 5 - Yu's 3H Framework for Holistic Management of people and Organization, Source: Yu, E. (2020)

Applying 3-H framework to analyze Satya Nadella's leadership and strategy in changing Microsoft into a mobile-first and cloud-first company and to address the issue on staff engagement, motivation, and the problem of encouraging innovations.

Necessary and sufficient factors for holistic pandemic prevention and control

- H1 Heart-oriented leadership that can engage and motivate employee is the first necessary factors.
- H2 Head domain driven effective Strategy planning process is the second necessary factor.
- H3 Hand domain developed competence to execute the new strategies is the third necessary factor.
- All 3H domains closely integrated would secure the sufficient condition for the success in changing Microsoft into a mobile-first and cloud-first company

H1 Heart-oriented leadership that can engage and motivate employee is the first necessary factors.

Satya has implemented the Growth Mindset to engage the employee, his openness welcomes anyone to tell him anything. (Lebowitz, 2015) It does not only facilitate employee's opinion, but also engage employees. Satya also encourage experiment as a learning process. Satya also promoted the culture of diversity and inclusion through multiple channels. (McIntyre, 2019)

Based on the analysis using the Kotter's theory, which is a 8-step process to engage and motivate employee, however, Satya did not just engage employees, but also other stakeholders, especially the investors. (Kotter Inc, 2020) As stated above, the Share price of Microsoft increased

We have further analyzed the employee engagement that Satya has carried out. Although some of the executives had left Microsoft, including some are very experienced, these employees' turnover may not due to a single reason. As the organization structure changed, the reporting line and responsibility changed also. Therefore, employee may have personal reason, career planning and personal goal that may not match the new position. After all, these executives, after serving Microsoft for so many years, are already qualified to have financial freedom. They may have their own choices for their career. As concluded, H1 is well managed, but H1 alone is not sufficient to be successful in the changes. Microsoft also requires a sound strategy and effective executive to fulfill the other factors, that is the H2 and H3. (Eddie Yu, 2020a)

H2 Head domain driven effective Strategy planning process is the second necessary factor.

Head domain of the 3H framework entails planning, organizing, and controlling process. It calls for rational, logical, and strategic thinking. In this regard, it is a science more than an art-oriented undertaking. (Eddie Yu, 2020a)

Satya in his first email to employees, announced that he will rebuild Microsoft into a mobile-first and cloud-first company. He planned to change Microsoft to have collaboration with competitors, to embrace open source, to encourage innovations. However, having fine strategies is not sufficient, an effective execution, the H3, of the strategy with right set of competence should be fulfilled.

H3 Hand domain developed competence to execute the new strategies is the third necessary factor.

To develop the competence hands on may be a solution. To encourage innovations and collaborations, Nadella has created the annual Microsoft Hackathon, which is the "largest private hackathon in the world." It encouraged Microsoft employees from different business and operation units to work together on projects. Before the creation of hackathon, different business units are in constant competitions. The hackathon helped creating a collaborative, fast-moving organization. It is highly needed to compete in the digital-first world today. (Nigel Vaz, 2019)

At the Wall Street Journal Digital Live conference in 2016, Nadella admitted: "We clearly missed the mobile phone, there's no question." It indicated that Microsoft was not going to give up the mobile market. Instead of building its mobile phone or the mobile OS, Microsoft put its efforts into getting

Windows-owned apps onto Android and iOS systems. Furthermore, Nadella also changed Microsoft's aggressive strategy towards rivals (Ballmer once called Linux System a cancer) and has embraced working with partners. (Nigel Vaz, 2019) Recently, Microsoft had also putting the Linux core into the Windows 10, so that Linux applications can be used on Windows.

This collaborative thinking is an important move. It's because of the fact that fast-moving and specialist partners are able to deliver better solution to a specific challenges. In 2017, Microsoft was the world's biggest open-source project code contributor. It has established itself as the biggest player in this field, through its openness to introducing new partners. Microsoft also beat Google in acquiring open source platform GitHub for \$7.5 billion. (Nigel Vaz, 2019)

All 3H domains closely integrated would secure the sufficient condition for the success in changing Microsoft into a mobile-first and cloud-first company

From the above analysis, H1, H2 and H3 are fulfilled and it can be easily noticed that H1, H2 and H3 are effectively integrated. The Heart domain is well fulfilled, so that employees and stakeholders are engaged to implement the strategies properly formulated in H2 as in H3.

From the timeline, Satya lay out the strategies in H2 in his first email to employee. He, then, engaged employees and stakeholders as in H1 though various activities as mentioned above. These highly engaged employees are the success factor in successful execution of the strategies.

Limitations

All information is based on public information, however, some detail in-house information is not available, such as the information on the meeting of Satya with all staff, internal memos, exact reasons for the executive turnover. However, it is the common restriction for business research based on companies, unless the researcher is an insider with authorization to obtain all the information, he/she needed and is allowed to disclose internal information.

Conclusion

The changes of Microsoft after Satya Nadella appointed CEO are highly successful based on the confidence of investors, who found Microsoft is on the fast right track. The share price are six times of the price at the first day Satya is the CEO. The success of the changes is analysis using various framework and theory on certain parts of the changes, finally, a holistic approach, the 3-H framework, is used to have an overall analysis. The Heart, Head and Hand domain are well fulfilled, this is why the changes are so successful. It is argued that the turnover of executives is a lose for Microsoft, especially, some of

them have been served in Microsoft for a very long time. However, it is common for executives to leave the company if he/she has failed the competition for the position of CEO. As the organization structure is changed, it is also very common to have employee turnover. It may be because of the change of reporting line, change of responsibility, or failed to be in line with employee's career goal. So, if we talk about the success and failure of the change by Satya, the success is solid, and the failure are not so certain.

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