Microsoft: From Gates to Ballmer

When people think computer software, they think Microsoft. From its small beginnings on April 4, 1975, Microsoft has grown to be the worldwide leader in software, services, and solutions to help people and businesses achieve success. Leading Microsoft’s charge to success was its founder, Bill Gates, who is known for having a relentless work ethic and hands-on management style. Gates was incredibly involved in his company's activities, talking directly to his employees so as to know what was going on at all times. Since Gates stepped down as CEO in 2000, however, Microsoft has experienced many changes. Gates' long time right-hand man Steve Ballmer became the new face of Microsoft, bringing with him an entirely new management style. Ballmer is notorious for being overly aggressive, difficult to work with, and uninvolved with product development. Purely focused on retaining power and selling the most products possible, Ballmer has hindered Microsoft in ways Gates never would. If Ballmer adjusted his management style to become more involved and less critical of his inferiors, Microsoft could become more successful than ever before.

Bill Gates' Rise to Success

It is no secret that Microsoft has attained a God-like status in the technology industry. Over the course of multiple decades, the once-tiny company has become a household name. The question is, how did the company achieve such incredible success? Some focus solely on the fact that Microsoft has almost $35 billion between investments and liquid cash. Others site the
incredible innovations Microsoft has shown the technology world. All can agree, however, that Bill Gates was, and still is, considered to be the driving force behind Microsoft; a major reason the company has attained such a huge following is mainly due to his incredible knowledge of computer science as well as his fantastic leadership qualities as a CEO.

Gates’ fascination with technology was said to be contagious. This, coupled with the company being focused on a long-term profit margin, caused Gates to stress to each employee that they should be concerned with winning 100% of their target market. The employees, who were generally considered to be within the population’s 5% most intelligent people, were said to be almost entirely A-players. Gates made sure that employees who were hired were not only smart, but also knowledgeable; he prided Microsoft in thinking outside the box and made sure his employees did so as well. The employees, whose numbers grew vastly during Microsoft’s expansion, were encouraged not to be afraid of failure, but rather to push on relentlessly. As alluded to in the “Lessons to Mars” article, Gates wasn’t afraid of failure, and instead thought of it as a chance to learn. In fact, he encouraged it. He knew, unlike most companies, that success wasn’t vastly more rewarding than failure. This ambitious mentality often guided employee culture and work habits.

A major aspect of Microsoft’s success under Gates was to ensure that managers were qualified. This, to Gates, didn’t mean that they could manage those under them, but that they were capable of doing every job of those under them. Marketing managers could market, sales managers were skilled with sales, and of course, Gates is an expert at programming: the core concept of Microsoft itself. Because its managers were so exceptionally qualified, Microsoft under Gates was incredibly performance-based. David Thielen, author of “12 Simple Secrets of Microsoft Management” even went as far as to call the company “heartless” and “unfair” due to
it being so numbers-oriented. At the end of the day, Microsoft wanted nothing but A-players, and the mentality that performance was so essential led the company to perform with a champion mentality.

A major claim to fame that Gates retained throughout his career was that he was entirely immersed in the entire company’s doings. He required monthly emails from project leaders with extensive updates and statistic. Additionally, each Saturday, he would spend half an hour on the phone with all vice presidents discussing issues within their respective departments. Because he was so informed about the company, he was always both able and willing to communicate down through the ranks. He was notorious for communicating directly with software developers who were at the core of the operation. Being so informed allowed Gates to make the right decisions.

This elaborate system of department communication also determined how the company was organized. Rather than being one giant behemoth, Microsoft was organized into a multitude of smaller branches. By doing so, the company avoided difficult bureaucracy that plagues many other companies, yet still had the resources of a giant corporation. In addition, Microsoft’s company rules under Gates were few; by doing so, employees didn’t feel stressed, and tended to remember the rules much more often due to their importance.

Finally, Gates found it important to make employees comfortable. No dress code, real offices instead of cubicles, free soft drinks, and many other aspects helped employees to maximize their productivity and feel more relaxed.

Gates was truly an involved leader. He picked only the best employees, directly communicated with them, and created a work environment with as little stress as possible. Because of his unique management style, Gates was able to push Microsoft to achieve extraordinary success.
Ballmer's Change

Some of the problems with Microsoft today can be attributed directly to its new CEO, Steve Ballmer. There are a lot of qualities about Ballmer that have actually hurt the company over his tenure. One of Ballmer’s biggest problems is the fact that he is not a product-orientated person; rather, he is a business-orientated person. Ballmer takes very little interest in the different products that the company is making and tends to just focus on the selling aspect of the company. This mindset creates problems when it comes to product reviews. A former Microsoft employee described one of his team’s products reviews after they went to Ballmer to get his feedback on their new program. When Ballmer came to the meeting, he simply said, “I haven’t used it. I’m not the right user,” and wouldn’t give the time to test the product for even a few minutes (Yarow).

In other meetings about products, Ballmer focuses on the business plan surrounding the products, rather than the quality of the products themselves. Ballmer’s product reviews are so different from that of Bill Gates, who gave detailed feedback to help employees improve the product (Yarow). Ballmer’s lack of interest in the products really hurt Microsoft, because he didn’t provide feedback on the products that the company was going to sell. Without this constructive criticism, there was no way for employees to know how they could improve the products before they were put on the market, which led to lower quality products being put out by Microsoft. The review cycle is crucial for product-based companies, but without a product-orientated person in charge, this cycle is neglected.

In addition to the review cycle, Ballmer’s lack of product knowledge has hurt the company’s decision making about what to produce over the years. One of Ballmer’s biggest problems has been underestimating other company’s products. Before the iPhone’s release,
Ballmer was quoted saying “There's no chance that the iPhone is going to get any significant market share” (Rivlin). Ballmer was gravely mistaken, as now the iPhone brings in more revenue alone than all of Microsoft. By misjudging rival products, Ballmer has prohibited Microsoft from getting involved in different product markets earlier than its competitors. They were too late at getting into the phone market, and when they finally decided to enter this area of business, their first product was an absolute failure. Microsoft spent about $2 billion creating their phone called the Kin, but after only 48 days on the shelves, Microsoft had to decide to discontinue the phone due to its terrible sales and ratings (Rivlin).

Microsoft has also had issues creating new products under Ballmer. The company spends nearly $10 billion a year on research and development of new products that don’t make it to the shelves, which is just a waste of money in the long run (Thomas). The lack of product knowledge of Ballmer contributed greatly to the company’s issues with products, as he doesn’t know what makes a good product or which products to invest in. Ballmer’s lack of expertise in the subject of products hurts his leadership capabilities. When Ballmer is forced with a decision as CEO, he doesn’t have to right knowledge of the subject to make a good decision, making him a poor leader. This problem is compounded by the fact that Ballmer has made the company a bureaucracy, meaning all of the decisions come from a few people at the top. This bureaucratic style means Ballmer ultimately makes a lot of decisions, which has hurt the company. If the company had a more facilitative style of leadership where it consulted experts in products, they wouldn’t have made all of the bad product decisions that they did.

Another problem with Ballmer is his personality, which hurts his leadership qualities even more. Ballmer is not very good at working with others in meetings. In meetings, he is known for his aggressive and intimidating style, often shouting during meetings; he even once
tore his vocal cords in a meeting from shouting so much (Johnson). Furthermore, Ballmer is known quite well for his short temper. One of the greatest examples of this temper was when employee Mark Lucovsky told Ballmer that he was leaving Microsoft to work at Google. Lucovsky recounted Ballmer’s reaction in court, saying that Ballmer threw a chair across the room and then shouted “f---ing Eric Schmidt (chief executive of Google) is a f---ing p---y. I'm going to f---ing bury that guy. I've done it before, and I will do it again: I'm going to f---ing kill Google.” (Johnson). This incident just goes to show how great of a temper Ballmer has and how easily he can lose it. Good leaders are able to keep calm in pressure situations, but Ballmer doesn’t know how to keep his temper under control. Shouting at employees doesn’t motivate them; instead, it usually puts them down. Ballmer’s aggressive style may work when negotiating with customers for business deals, but it doesn’t work when working with employees and actually inhibits good performance. Ballmer doesn’t have the right personality qualities to be a good leader, which in turn has hurt the company.

In addition to his aggressive style, Ballmer is also neurotic about losing authority as CEO. The former senior vice president of Microsoft, Joachim Kempin, wrote a very critical book of the company after he left in 2002. In part of the book, he accuses Ballmer of “purposefully ousting any executives with potential to wrest him from the CEO seat” (Rigby). Kempin cites five different incidences where a person who had just risen to a high position in Microsoft left the company for another one. The first incident surrounded Richard Belluzzo, who created the Xbox gaming console for Microsoft. Belluzzo was promoted to chief operating officer, but left the company after only 14 months in the position. Kempin credits Belluzzo’s departure to Ballmer: “[Belluzzo] had no room to breathe on the top. When you work that directly with Ballmer and Ballmer believes 'maybe this guy could someday take over from me', my God, you will have less
air to breathe, that's what it comes down to” (Rigby). Ballmer put so much pressure on Belluzzo that he felt he needed to leave the company. This scenario happened with four other senior executives of the company over the course of Ballmer’s tenure as CEO, showing that he truly is neurotic about someone usurping him as CEO. Neuroticism is the worst possible personality trait to have in an employee as it really hurts their performance. Since Ballmer is constantly worrying about someone taking over his position, he is not able to put his full efforts into his actual job: being CEO of Microsoft. Furthermore, by ousting the high up people in the company, the result is a lack of leadership at the top of the company and the high turnover rate kills cohesion among the employees. This high turnover of leaders in the company has definitely had an impact on its success the past decade.

Microsoft's Culture

One cannot attribute Microsoft’s recent lack of success solely to Steve Ballmer. Aside from Ballmer, Microsoft has practices and an overall culture that has hindered its ability to grow exponentially like other new, successful companies. By applying some lessons from our class, we can see where Microsoft is going astray in specific ways.

One aspect of Microsoft’s organizational structure that has hurt them in recent years is their practice of stack ranking. The company requires every manager of a team to designate each team member as either a top, good, average or poor performer (Microsoft). “If you were on a team of ten people, you walked in the first day knowing that, no matter how good everyone was, two people were getting a great review, seven were going to get mediocre reviews, and one was going to get a terrible review” (Microsoft). This stack ranking concept then led to some internal problems with teams. For example, two star performers would avoid collaborating simply out of
fear of losing a great ranking (Microsoft). Some competition among a team is good, but in the innovation and design driven business that Microsoft lives, a team that works with each other is vital in order to produce the best product. In our case study of the Army Crew Team, we saw that the JV team worked together very well, and individual improvements were made for the betterment of the team. The Varsity squad, however, although composed of many talented individuals, did not perform well as a team. They blamed each other for their failures and did not work to improve their chemistry. The current Microsoft team evaluation system would promote more of a Varsity squad as opposed to a JV squad.

This stacking system is also a comment on the Microsoft approach to feedback itself. When we analyzed feedback, we looked at the Morgan Stanley case where Paul Nasr attempted to give Rob Parson feedback. Even though the feedback was lacking in some aspects, it was still based on solely Parson. If Nasr had to base the entire evaluation off of comparing Parson to his colleagues, then the feedback would not have been as value, if having any value at all. In Microsoft, this feedback is telling the wrong story, and leading to poor results. You can’t pick your A, B and C-players, but Microsoft is doing just that.

In the time of Bill Gates, Microsoft experienced tremendous success, producing cutting-edge product after cutting-edge product. They were the Apple of the eighties and nineties. This success, however, lead to their slight downfall. A Harvard Business Review article analyzes Microsoft by referencing the Innovator’s Paradox, a theory which states that “when you don’t need the growth, you act in ways that lead to you not getting the growth you will need” (Anthony). In Microsoft’s hay day, they did not need any growth, so they lost some drive to continue to change with the times and instead rode on the coattails of successful products like Windows for far too long. This trend can be linked to our group’s PowerPoint presentation on
learning from success and failures. Now that Microsoft is losing ground on other large companies, they realize that they have to do something. When they were succeeding back in the day, however, they did not analyze their success and realize that they were succeeding due to their innovation—they were giving the consumers the next big thing. Just as we explained how the motorcycle company Ducati failed to learn from their success in the article “Why Leaders Don’t Learn from Success,” Microsoft did not realize why they were succeeding, but rather stopped moving forward (Gino). They are now paying the price.

The culture of Microsoft on the whole, combined with its organizational structure, is another contributing factor to Microsoft’s lack of success. Microsoft is run by many men in their fifties or higher. Their young designers are constantly shut down by the traditional, even backward thinking upper management. “At Microsoft, internal competition has created a ‘dysfunctional corporate culture’ that thwarts innovation by belittling emerging teams that work on cutting-edge technologies,” said a former Microsoft employee (Horsey). This company dynamic explains the difference between Microsoft and the newer, successful Apple. In Apple, a room of very smart people becomes silent when the head of design, Jony Ive, walks in the room because Apple highly values design. In Microsoft, there is no emphasis on the head of design, and its group of intelligent people would spend their conference time individually negotiating with each other about what to put in the product (Sculley).

This cultural problem can specifically be pinpointed when one observes Microsoft’s leadership. In the third week of class, we analyzed the leadership styles of management and how they can raise motivation. Just as stack ranking discourages motivation and job satisfaction, so too does the stationary leadership styles of Microsoft’s top management. The old-fashioned managers in Microsoft have been discouraging young innovators. When one references the
leadership continuum, he would see that due to the constant discouraging of innovation and allegiance to older systems like Windows, the area of freedom for the subordinates is very small while the use of authority by the manager is very large (The Leadership). Not only is this use of authority large, but it is being used for the wrong reasons. The managers at Microsoft act as if they do not trust their employees (Zolman). This discourages the subordinates. In an industry such as the technology industry – which requires large amounts of creative thinking – one would assume that a subordinate or innovator at Microsoft would be given great amounts of leeway and trust, but this is not the case. In the GE Case, Jack Welsh allowed his employees to voice their opinions more often once the company was established. Microsoft has been established and successful for quite some time, and the opportunity to give its employees more ability and chances to better the company certainly exists.

Microsoft has always been very frugal. Bill Gates would always fly commercially in coach until the company had to purchase a Jet for planning purposes (Richey). In more recent years, however, these cuts in costs have affected lower level employees as well. Cuts in office supplies, and more importantly, in healthcare were made (Microsoft). These cuts in costs, combined with an older generation constantly rejecting the younger, innovative generation, has most likely led to a decrease in job satisfaction among Microsoft employees. In the Sears case, we saw how Sears focused on its employees’ job satisfaction, which influenced the customers, and in turn, increased profit. Although most of Microsoft’s employees might not deal with the customers directly, a decrease in job satisfaction would only cause them to put less effort and passion in their work and eventually discourage them from performing to their highest abilities.

Lately, Microsoft has had many problems preventing it from achieving success. By making certain changes to both their culture and management, however, Microsoft can return to
its former glory.

Returning Microsoft to Glory

Though Microsoft has lost some of its dominance in the industry from the 1980s and 1990s, the company is still profitable and can certainly return to its former success. There are a few things the company, and specifically Ballmer as a leader, can do to attract more customers and higher-quality employees. Microsoft needs to end its policy of stack raking employees. The policy is far too crippling on employee creativity, especially in a technology-driven field where creative thinking is crucial. Employees work against, rather than with, each other, in order to obtain the best performance reviews. Some of Microsoft’s competitors boast enjoyable workplace environments, but because Ballmer encourages values such as strict deadlines and maximum profit, he creates hygiene factors that add stress and therefore lessens the impact of intrinsic motivators (such as enjoyable work). Ballmer has also created a more bureaucratic organization, which might be seen as a hindrance stressor for many employees, especially those who were accustomed to Gates’ more democratic leadership style. In boosting morale among team members, Ballmer should think of creating teams that have some more interdependence – perhaps a comprehensive interdependence – which would require members to depend on each other. This would result in increased employee trust and the mentality that the team is working against its competitors rather than against each other.

Several former employees have complained that Microsoft hires awful managers that are highly self-concerned, lack leadership skills, and treat rank-and-file employees poorly (Bort). The managers, though, could be a result of Ballmer’s pressure to get as much out of his workers as possible, as well as the bureaucracy and politics in the organization. Many managers
have their own tasks, so they cannot focus all their attention on managing employees. These managers, though, feel that they spend too much time in meetings to complete all their tasks and be good managers (Rosoff). Effective managers are important in not only guiding employees in the right direction, but in keeping workers generally satisfied. We learned in the Brussels and Bradshaw case what can result when a breakdown in communication between employee and manager occurs. Hiring better managers could help bridge the gap between company executives and the rank-and-file employees, as well as increase employee satisfaction and reduce turnover rate. Also, Ballmer should become a little more delegative in his leadership style in order to allow his managers some freedom in their work. Though some situations might require Ballmer’s autocratic style, daily functions of the business do not need to be strictly dictated by Ballmer.

The question that arises is whether CEO Steve Ballmer should be cut in order for the company to move forward. There are certainly pros and cons to firing Ballmer, though. Ballmer’s leadership style has drastically differed from Gates’. While Bill Gates was more of a delegative leader, Ballmer is more autocratic, favoring a bureaucratic organizational style, and crushing the ideas of those he finds inferior. Ballmer also appears to be selfish and greedy, as several former Microsoft employees have stated that Ballmer ousts anyone who challenges his authority (Rigby). Ballmer also has a different background from Gates, as Gates was actually knowledgeable about Microsoft’s products and could effectively communicate with employees as a result. Ballmer doesn’t know as much about the technological aspects of the company, instead focusing more on the business aspect, creating the “thick-walled cubical style” business setting.
With competitors like Apple, Google, and Amazon, selling products that the public find appealing is important. This industry is highly product-driven. If the company releases a bad product, customers may flock elsewhere. The company needs to shift its focus more on creating quality products that cater to teenage and young-adult consumers in order to regain their loyal fan base. While Microsoft’s Windows and Office products were highly successful, the market has shifted towards mobile technology, including tablet PCs and mobile phones. Unfortunately, Microsoft failed to capitalize on the industry shift, and has struggled to keep up with competitors as a result. Perhaps the company needs a more tech-savvy CEO who is better informed with the trends in the industry. The problem with firing Ballmer, though, is finding a better replacement. He has been CEO for the past 13 years, so he has the most experience in the position. Therefore, the company might have to look outside of Microsoft in order to hire a replacement, if needed.

Though Microsoft is not in a terrible position, the company has fallen from dominance over the years. However, the company can recover if Ballmer shifts away from his autocratic leadership style and loses his greed for power and profit, hires better managers who treat employees better and do not have to function under such a strict bureaucracy, and overall becomes more concerned with creating products that cater to consumer trends.
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