

## Microsoft Rebooted: How Bill Gates and Steve Ballmer reinvented their company

*By Robert Slater Portfolio, 2004*

*This fascinating book explains how Microsoft has been attempting to reinvent itself in the past five years. The restructuring triggered off by the antitrust proceedings and accelerated by the changes in the competitive environment has forced the software giant to take a complete relook at the way it runs its business.*

### Introduction

Since the late 1990s, Microsoft had been embroiled in antitrust proceedings. The Government had been able to impose important restraints on the company. Microsoft was relieved when it came to know it would not be split in two. The initial judgment calling for the breakup of the company had been overruled some time earlier. But there were fears that if the case had continued, another judge might have reversed the order again and called for a dismantling of the company. Microsoft executives all sat quietly, digesting the news on November 1, 2002, the day of the judgment. Eventually, it became clear Microsoft could continue more or less as it had been.

Microsoft wanted to project in those first moments after the trial its readiness to change. Gates and Ballmer scheduled a news conference soon after the judge's decision. They did not want to give the impression they had emerged triumphant. It was important to set a humble tone immediately. As Gates mentioned "We believe that today's ruling, largely affirming the settlement we reached with the Department of Justice and the nine states, represents a fair resolution of this case."

Twelve days after the trial ended, Ballmer sent a memo to all employees attempting to set a new tone for the organization. Some of the important points covered in his memo were:

- "We are restricted in how we negotiate with computer manufacturers. We now operate based on a transparent and uniform price list for the Windows operating systems.
- We are required to make design changes in the Windows user interface so that access to certain Microsoft features can be removed to give prominence to competitor products instead.
- We have identified nearly 300 internal Windows interfaces and have disclosed these (at no charge) to competitors and others in the industry so that they can use these to interoperate with Windows.

- We have made available for license the protocols that the Windows desktop operating system uses to communicate with our Windows server operating system. Competing server software vendors can acquire up to 113 protocols under this program."

In his book, "Microsoft Rebooted," Robert Slater explains how Microsoft is attempting to cope with a changing business environment. The book has a strong focus on how the company is transforming itself from a start up to a mature organization.

### **Impact of the antitrust proceedings**

The book explains in detail how the antitrust proceedings unfolded and raised several concerns for Microsoft. One was that customers might defect because of the trial. Fortunately, consumers had remained loyal to the company and to its products. Some 600 million people were using Microsoft's Windows operating system and 400 million were using its Office, which in 2003 was generating almost one-third of the company's sales and profits.

Still, Microsoft feared that at some point of time, the negative effects of the trial would affect customer loyalty. To prevent that from happening, Microsoft realised it was necessary to improve its reputation among the high-tech community, the government, the media, and the like. The company had to send signals that it was no longer an aggressive monopoly but a new kinder and gentler company.

The trial had played an important role in curbing some of the excessive zeal that had existed before the proceedings. The trial matured people, and caused a tempering, of the way that it competed. As a start-up, Microsoft's culture was anchored in aggressiveness, competitiveness and a lack of discipline. Realising the need to revamp completely the way the company did business, Gates and Ballmer decided to reshape the most fundamental pillars of the company, including their own leadership; the organization structure, the kind of people they hired and management style.

### **Ballmer & Gates: Redefining the role**

Microsoft had essentially been a one-man show from its founding in 1975 until the start of 2000. In Microsoft's early years, Gates made all the decisions, large or small. He allowed no middle managers between him and his employees. Gates was Microsoft's chief decision maker, chief technologist, chief salesperson, chief dealmaker and chief visionary, all rolled into one. He hired everyone, organized and ran every meeting, supervised every marketing campaign, and decided on every product. Gates' stature was such that no one disputed his leadership. It was simply accepted that Gates would be at the helm of affairs for as long as he wished. No one grudged that Gates wielded so much power.

By the early 1980s, with Microsoft growing rapidly, Gates looked to reduce the operational burden but without yielding any real power. Over time, he hired people to

handle the business side. But Gates continued to make most of the company's major decisions. In 1980, Gates was eager to find someone he could trust to help him put some order into the chaotic, loosely run organization. He found Steve Ballmer, his old friend and college mate the ideal choice.

In the ensuing years, Gates and Ballmer worked well together. At various times, Ballmer ran several Microsoft divisions, including operations, product development, and sales and support. Ballmer could question what Gates was doing at any time. But Gates remained in charge.

As the company grew in leaps and bounds during the 1990s, Gates understood that he had to devote more attention to technology. The anti trust trial prompted Gates to relinquish almost all of the decision making on business issues to a single figure. Gates wanted to concentrate his attention on technology. He wanted to impose order on the proliferation of software projects within Microsoft. As a whole new array of computer devices required software, including hand-helds, cell phones, watches, and tablets, someone had to stay in touch with the various product development teams to ensure that no disconnects occurred, and that synergies among the teams were properly exploited.

In any case, Microsoft had also become far too complicated and multifaceted for even someone as talented as Bill Gates to run on his own. In 1993, Microsoft had \$3.79 billion in revenues, \$953 million in profit, and 14,430 employees. In 2000, revenues soared to \$22.96 billion, profits to \$9.4 billion, and the headcount to 39,170. Between 1999 and 2000 alone, the company had taken on nearly 8,000 new employees.

Gates realised that to project the right image to the outside world, the company had to stop behaving like a start-up. The best place for Gates to start was to delegate most of his powers to someone else and become less visible and less of a target for outsiders. No longer would the company's competitors have a whipping boy. In July 1998, Gates appointed Ballmer Microsoft's new president. But Gates still retained a good deal of the decision-making authority. In January 2000, Gates made Ballmer the CEO.

While Gates disassociated himself from much of the operational decision making, his role was in no way diminished. Ballmer admitted that in comparison to Gates, he was nothing when it came to seeing the forest for the trees. I tend to see the forest and have a hard time with [the trees]. People will tell you that I'm good at details. I'm not bad at details. . . but I don't have the mental capacity Bill does. He builds a model, a checklist of questions to ask. It's just a marvel to watch him build these checklists in his mind on a problem."

But the two senior managers seemed to complement each other well. If Gates loved technology, Ballmer got excited about business processes. Ballmer said of Gates, "He doesn't mind management process, but he doesn't gravitate to it." Ballmer liked to solve business problems by scheduling a meeting with certain people, fixing an agenda, then

meeting every few weeks, but "that's not where Bill evolves to naturally," Ballmer explained. "He evolves much more naturally to 'I can help figure that out. I'll just get a few people in the room and we'll figure it out.' "

The transition had not been easy. "It was fairly clear," Ballmer commented, "shortly thereafter that neither he nor I really understood what [the shift in power] meant, how were we really going to change our working dynamic. And it probably took us, again, almost a year to really sort that through."

It was figuring out when one should exercise authority that caused the most strain. Not clear about how he should demonstrate his authority. Ballmer decided to start off slowly. He spent the first three months doing little more than talking to the company's one hundred most senior technical and product people. As time wore on, the two men began to understand their responsibilities better. They learned instinctively when to defer to each other.

Ballmer gradually became responsible for setting the business vision and for running the company in general, or, as he put it, "Making sure we really are doing a good job of having management process, people, and organization. Do we have the right people in the right jobs?" While Bill Gates still offered advice, Ballmer made the final decisions. For example, if Microsoft was about to hire a senior technologist, Gates gave his opinion but did not have the final say as in the past. He also exercised restraint when it came to sales and marketing issues. At the same time, Ballmer gave Gates' advice a lot of weight: "I always want to know what things are important to Bill and that he really wants funded."

On product development decisions, Gates' opinions always carried the day. Gates had full control over all technology issues. Gates continued to travel and speak for the company, but he did so in a more limited, choosier way. If the customer was big enough, he paid a visit. But he left the CEOs mostly to Ballmer and tried to spend his own time with chief technology officers and information technology personnel.

Ballmer knew that much more was needed to make the company disciplined and more efficient. He decided to restructure the company's businesses into seven more market-oriented segments, empowering the heads of these business segments with substantially enhanced powers over budgets, personnel, and products. This decentralization was aimed at making individual businesses accountable for their operations and enabling them to get closer to customers.

### **Promoting a new culture**

To promote a new Microsoft to outsiders, Ballmer knew that he had to modify the culture in important ways. Certain features, like a passion for technology plus a willingness to work hard, to persevere, and to be self-critical remained as relevant as ever. But it had become necessary to abandon the attitude of winning at any cost. An

excessive zeal had permeated the culture, landing the company in many legal disputes. This excessive zeal had to be tamed. Ballmer asked employees to be open and respectful. He wanted the company to be less secretive, less mysterious and more communicative. Ballmer wanted people to be aggressive, but he also wanted them to be open and respectful toward people and organizations outside, who were collectively determining the company's image.

Microsoft also realised it had to discharge its responsibilities as a good industry leader. Microsoft started to develop standards based on Extensible Markup Language, or XML, which had become the universal way for computers to talk with one another across the Internet. Microsoft also devoted considerable resources to improving the security of its software products.

In February 2002, during a meeting of senior Microsoft managers at a four-day retreat at a ski resort in Bend, Oregon. Orlando Ayala, a senior sales executive, launched into an emotional outburst about the need to be more responsive to customers. He urged other executives to put the customer first. Customers frequently thought that Microsoft simply did not care about producing great products. As a monopoly, it believed it could get away with inferior workmanship. When Ayala mentioned at the meeting that some people deserved to lose their jobs and that all of them there were accountable for what had happened, he received a standing ovation from the assembled executives. Echoing Ayala's sentiments, a large number of managers expressed their concern that Microsoft had acquired a reputation as an arrogant monopoly that had become obsessed with its own profits and that had been frequently insensitive to customer needs.

When Gates rolled out his Trustworthy Computing initiative early in 2003, Microsoft explained it would help the company to become more responsive to its customers and the outside world in general. The initiative was meant to demonstrate Microsoft's sensitivity toward its customers' problems with its software and keenness to build more reliability into its products. Microsoft also began to address seemingly disparate complaints about its products. There were complaints that Microsoft's products were not secure enough, were too vulnerable to viruses, were not reliable enough and were crashing too often.

Microsoft declared it wanted to make computing as user friendly as electricity, water services and telephony. Gates observed, "Computing falls well short of this, ranging from the individual user who isn't willing to add a new application because it might destabilize their system, to a corporation that moves slowly to embrace e-business because today's platforms don't make the grade. The events of last year [2001]-from September's terrorist attacks to a number of malicious and highly publicized computer viruses-reminded every one of us how important it is to ensure the integrity and security of our critical infrastructure, whether it's the airlines or computer systems."

In 2002, Gates decided to put on hold the work of more than 8,500 Microsoft programmers while the company conducted an intensive security analysis of millions of lines of Windows source code. Many programmers were given special training in writing secure software.

Microsoft also attempted to make products simpler and user friendly. "We seek," said Ballmer, "to deliver software with great functionality that only involves learning a few fundamental concepts-whether you're an end-user, IT professional or developer. This is a great foundation on which to build simple and rich, yet affordable, value propositions for our customers. Our view on this differentiates us from IBM. They believe IT is fundamentally complex and confusing, and that customers should pay consultants for loads of services to help master that complexity."

In the past, Microsoft's mission had been, to put a computer on every desk and in every home. The mantra was "We are going to win!" Over time, Microsoft tried to modify the original vision by coming up with a new slogan: "Empowering people through great software-any time, any place and on any device." That new vision was meant to capture the changing computer environment, but the emphasis was still on the product.

At a retreat in March 2002, Ballmer and the executive staff concluded that it was time for the company's mission to go beyond simply what it wanted for its products. "[O]ur mission is not just about building great technology," Ballmer wrote in the memo that followed the retreat. "It's also about who we are as a company and as individuals, how we manage our business internally, and how we think about and work with partners and customers."

Ballmer realized the need to communicate more broadly and in a more human and compelling voice. Accordingly, he decided to increase the company's advertising budget significantly for all audiences-developers, IT, information workers, consumers, small business, and business leaders. In 2004, Microsoft planned to spend \$600 million on advertising. Microsoft also shifted its advertising themes. Earlier, advertising had been product-focused; now it was focused more on customer scenarios (looking at how the software helped a business) and on being aspirational (as in the 2003 advertising that spoke of "Your Potential, Our Passion").

The revamping of Microsoft's culture was especially about being more open and being more respectful to others in the outside world. It was also about communicating what the company was doing in a way that others would understand and appreciate. Ballmer's challenge was to reach out to 55,000 people in seventy countries and explain to them why it was necessary to change direction.

### **Gates' Management Style**

The book also throws a lot of light on Gates' management style – his passion, focus,

drive and willingness to learn all the time. Gates' ability to shift strategy overnight is legendary. A good example is his efforts to make Microsoft adapt to the Internet world in 1995. A tough leader, Gates does not believe in being liberal with praise. He encourages a confrontational environment where no-holds-barred discussions can take place. To encourage people to speak openly, Gates remains silent for most part of the product review sessions. This ensures that others are not biased by his thinking. Gates is also famous for his Thinkweek. He spends a full week away from everyone else, all on his own to do nothing but think of futuristic issues. This helps Gates to focus and crystallize his thoughts on which direction, the company is taking. The book also gives insights on the tough recruiting standards which Gates shaped to ensure that only the best people got in. Also discussed is Gates' heavy use of email to communicate with employees.

### **The road ahead**

On November 13, 2003, in an interview with *Business Week*, Ballmer mentioned that people had "increased expectations" toward Microsoft. The company had to step back and say, "It doesn't matter how we may have seen ourselves; we have to see ourselves as others see us."

Traditionally, how well employees performed as individuals had counted, at Microsoft not how much they contributed to a team effort. The performance management system focused on individual results. The individual performance culture discouraged intimacy. "It wasn't a collegial environment," remembered one executive. "You worked hard with your team, but you were not buddy-buddy with them. It wasn't a company that inspired or valued close friendships because everyone was so driven."

By the early 2000s, the Microsoft culture was going through a powerful seismic shift. The old culture had focused on being aggressive and competitive. The new one was going to revolve around a single key phrase, open and respectful. In everything the company did, it promised to be open and respectful toward the outside world. No longer did Microsoft give the impression that employees had to be competitive at all costs. A new Microsoft looked all set to unfold.