Microsoft: instilling a growth mindset

When Satya Nadella became CEO of Microsoft in February 2014, the company seemed in danger of fading into irrelevance. Now its share price is at an all-time high. How did he do it? By **Herminia Ibarra** and **Aneeta Rattan**

Report/Anna Johnston

I n less than five years as CEO, Satya Nadella has taken Microsoft from a company perceived as a Windows-centric lumbering giant to a US$700 billion (£540 billion) tech player whose strategic bets on artificial intelligence (AI) and cloud computing are paying off. After a decade of flat growth under Nadella's predecessor, the company's share price soared to an all-time high in June 2018.

When Nadella took over from Steve Ballmer on 4 February 2014, Microsoft was plagued by internal knife fights, bickering and inertia. A culture of internal competition and a 'not-invented-here' mentality had focused employees on a narrow vision of performance over customers, crippling innovation. So Nadella, an engineer, set out to change the human system at Microsoft.

Microsoft's infamous 'stack-ranking' performance management system pitted employees against each other every six months. Like a stack of LEGO bricks, employees were essentially slotted into top, good, average, below average and poor positions. The forced distribution meant that one in 10 people would always receive a poor rating, regardless of how much they contributed. As one product manager remembered: "If you don't play the politics, it's management by character assassination."

Developers feared that giving away their best ideas could damage their position. Employees prioritised what would help them get the highest ratings over the quality of their work. "I was told in almost every review that the political game was always important for my career development," reflected one former Microsoft engineer. Ultimately, "staffers were rewarded not just for doing well but for making sure their colleagues failed."

Then a wave of external competition crashed down on the firm. By 2004, thanks to the rapid growth of upstart firms such as Google, some of Microsoft's most talented employees were jumping ship faster than they could be replaced.

Microsoft's product development process lagged. After the tech bubble burst and with the stock price flat, "People realised they weren't going to get wealthy," one former senior executive said. "They turned into people trying to move up the ladder, rather than people trying to make a big contribution to the firm." Meanwhile, companies like Google were paying employees up to 23% above the industry average.

By 2014 the Microsoft that Nadella inherited was fading toward irrelevance, heralded the press. The tech industry had shifted from desktop computers to smartphones – from Microsoft's Windows to Apple's iPhone and Google's Android. Apple and Google had soared to record market valuations and Microsoft's stock price had stalled, despite the fact that revenue had tripled and profits had doubled during Ballmer's reign as CEO from 2000 to 2014.

As industry analyst Jan Dawson summarised: "It was an enormously profitable company. They were in no danger of going out of business soon – it was just a question of whether they'd go into permanent decline."

A new approach

Nadella had grown up professionally inside the firm. The India-born cricket enthusiast started working at Microsoft in 1992, when products were saved on disks and the world was powered by Windows 3.0. A computer scientist by training, he moved through a range of leadership roles, ultimately becoming Executive Vice President of the Cloud and Enterprise group. Reflecting on important influences in his life, he said: "It's the language, routines and mindset of my parents back in India and my family in Seattle that helped form me and still guide me today."

He traces the roots of his ideas about leadership to the birth of his first child, Zain, who has cerebral palsy. "We learned that empathy is essential to deal with problems everywhere, whether at Microsoft or at home; here in the United States or globally. That is also a mindset, a culture."

When he took over as CEO in 2014 he wrote a letter to all employees in which he spoke of focusing the company on its core values, but through a new lens, saying: "We need to prioritise innovation that is centred on our core value of empowering users and organisations to 'do more'." »

> 'Empathy is essential to deal with problems everywhere, whether at Microsoft or at home'

Satya Nadella: Improving upon each other's ideas is crucial

He devoted much of his first year to listening and learning from others. In his words: "Employees wanted a CEO who would make crucial changes, but one who also respected the original ideals of Microsoft, which had always been to change the world. Engineers wanted to lead again, not follow. They wanted to up the coolness. We had technology the press would fawn over in Silicon Valley, such as leading-edge artificial intelligence, but we weren't showing it off. What they really demanded was a road map to remove paralysis."

His to-do list for the first year included preparing Microsoft for a mobile- and cloud-first world, building "new and surprising partnerships" and working to ensure that they could truly empower every person on the planet, as their new mission stated. In the spring of 2014, despite a contentious historical rivalry with Apple and lack of traction with their own Windows phones, Microsoft made Office available on all iOS devices, including the iPhone and iPad. The next year, the global launch of Windows 10 originated in a tiny village in Kenya.

"Articulating our core raison d'être and business was a good first step. But I also needed to get the right people on the bus to join me in leading these changes," Nadella said. He wanted a senior leadership team that would "lean into each other's problems, promote dialogue and be effective … I don't mean yes-men and yes-women. Debate and argument are essential. Improving upon each other's ideas is crucial."

Nadella selected Jill Tracie Nichols, Ballmer's communications lead 2009–2014, as his chief of staff. He told her: "I've seen you work with others and you treat them well. You show respect. I want my office to be about the culture we are trying to create and not about power." Peggy Johnson, a seasoned Qualcomm executive, became head of business development. Her job would be to forge ties with former Silicon Valley rivals, such as Dropbox. Kathleen Hogan would transition from leading Microsoft's global consulting and support business to partnering with Nadella on leading the cultural transformation as chief people officer.

Kurt DelBene returned as chief strategy officer, Chris Capossela headed up marketing and Scott Guthrie, an engineer who had worked with Nadella in building the cloud business, would lead Cloud and Enterprise. "The senior leadership team needed to become a cohesive team that shared a common world view," Nadella said.

From know-it-alls to learn-it-alls

At Microsoft's July 2015 global sales conference in Orlando Nadella revealed a fresh company mission: "To empower every person and every organisation on the planet to achieve more." He talked about his children and what learning each of their special needs had meant for him and his wife, Anu. And he talked about living a "dynamic learning culture" based on a growth mindset. "It's about every individual, every one of us having that attitude – that mindset – of being able to overcome any constraint, stand up to any challenge, making it possible for us to grow and thereby for the company to grow.

In early 2015 his wife had given him Carol Dweck's best-selling book *Mindset: The New Psychology of Success*, which she had found helpful in thinking about creating conditions for success for one of their daughters who has learning difficulties. People who operate with a fixed mindset, the theory says, are more likely to stick to activities that utilise skills they've already mastered, rather than risk embarrassment by failing at something new. People focused on growth make it their mission to learn new things, understanding that they won't succeed at all of them at first.

"Dweck divides the world between learners and non-learners," explained Nadella, "demonstrating that a fixed mindset will limit you and a growth mindset can move you forward." Microsoft's culture change, he concluded, would centre on "the belief that everyone can grow and develop; potential is nurtured, not predetermined, and anyone can change their mindset". They would shift from being "know-it-alls" to "learn-it-alls".

At an off-site meeting with 180 executives divided into 17 teams, Nadella and Hogan started a dialogue on the kind of culture they wanted. The 17 leaders became Hogan's "culture cabinet," charged with defining growth mindset for the company. After much debate and consultation with experts like Dweck, the group articulated three pillars:

Leading change: three takeaways

1 Find an idea that resonates. Satya Nadella applied the powerful academic concept of growth mindset to solve a very real business problem. Microsoft's stalled growth and stifled innovation was due to its dysfunctional behaviour as an organisation. People were stabbing each other in the back and only the inner circle got to contribute. That was stopping them being competitive in an evolving tech landscape.

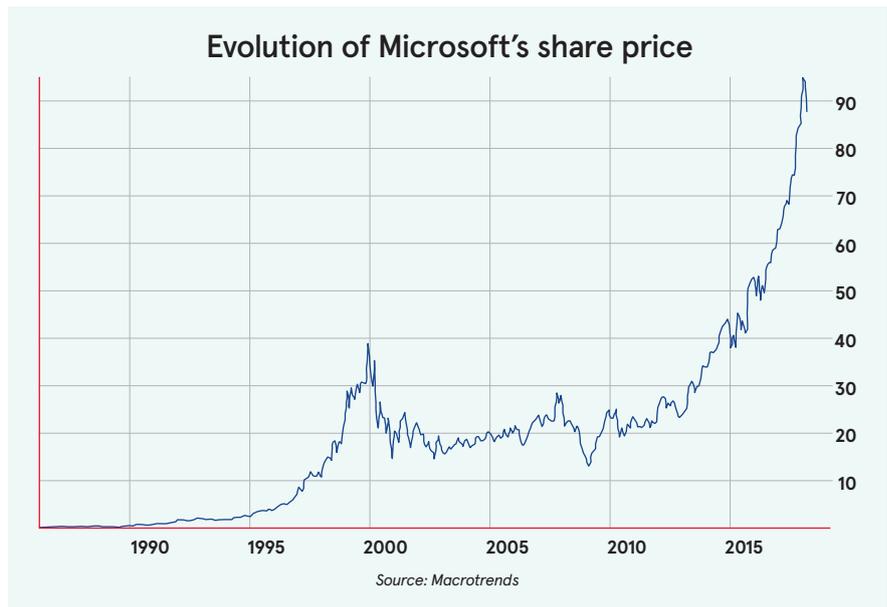**2 Get commitment through process.** Nadella got 180 people together to work out what growth mindset would mean for Microsoft. Seventeen change leaders then hammered out the three pillars. These include specific behaviours resulting in outcomes that support the idea and achieve concrete solutions. It's not just about saying something different now; it's about a definable set of behaviours that have to change if those words are true.

3 Embody the transformation. Nadella's ideas emerged from his experiences as a father, which forced him to reflect and grow. This is truly authentic leadership, where you work hard to extract lessons from your own life experiences. He truly believed in the concept and that served as an anchor. When he made mistakes, he was transparent about his own learning. Your change efforts are likely to fail if you aren't living and believing them yourself.

Transcending barriers: Microsoft today prioritises inclusiveness

Evolution of Microsoft's share price

Source: Macrotrends

Customer obsession. We need to obsess about our customers. At the core of our business must be the curiosity and desire to meet a customer's unarticulated and unmet needs with great technology. This was not abstract: We all get to practice each day. When we talk to customers, we need to listen. We need to be insatiable in our desire to learn from the outside and bring that learning into Microsoft.

Diversity and inclusion. We are at our best when we actively seek diversity and inclusion. If we are going to serve the planet as our mission states, we need to reflect the planet. The diversity of our workforce must continue to improve and we need to include a wide range of opinions and perspectives in our thinking and decision-making. In every meeting, don't just listen – make it possible for others to speak so that everyone's ideas come through. Inclusiveness will help us become open to learning about our own biases and changing our behaviors so we can tap into the collective power of everyone in the company. As a result, our ideas will be better, our products will be better and our customers will be better served.

One Microsoft. We are one company, one Microsoft – not a confederation of fiefdoms. Innovation and competition don't respect our silos, so we have to learn to transcend those barriers.

Throughout 2015 and 2016 Nadella spoke widely about the importance of mindset. "The CEO sets the tone for the culture," explained Nichols. "Satya models being curious, seeking to learn as people bring him new ideas and information."

The stack-ranking performance system was abolished, replaced by continual feedback and coaching and a compensation process that gives managers more influence. Nudges and small reminders engage all 125,000 employees with the new culture. For example, leaders close meetings by asking, "Was that a growth-mindset or fixed-mindset meeting? Why?" Nadella issues monthly videos reviewing his

top few learnings, prompting groups across Microsoft to discuss their own learnings. Visitors to Microsoft's head office are welcomed by elevator doors decorated with the Chinese symbol for 'listen'. Napkin holders in the canteen remind staff to be lifelong learners.

Role-modelling the change

Eight months into his tenure, Nadella gave the keynote speech at an annual event for women in tech. During the Q&A he was asked what advice he had for women seeking a pay rise who are not comfortable asking for one. He advised patience and "knowing and having faith that the system will actually give you the right raises as you go along". His comments went viral, provoking outrage. He was mocked publicly as ignorant of well-documented gender pay gaps and his stated commitment to diversity was questioned.

Instead of waiting for the furore to settle, Nadella said, "I was determined to use the incident to demonstrate what a growth mindset looks like under pressure". He emailed his employees to tell them he had "answered that question completely wrong". He explored his own biases and asked his executive team to do the same. Hogan recalled: "I became more committed to Satya, not less. He didn't blame anybody. He owned it. He came out to the entire company and he said, 'We're going to learn and we're going to get a lot smarter.'"

Expecting 125,000 people to take a learning-oriented approach to their work is a significant task. Not everyone gets it right away. But today Microsoft is once again a magnet for top engineering talent, rated as one of the five best AI companies for employees, and Nadella has a Glassdoor employee approval rating of 95%. "People often ask how it's going," said Nadella. "My response is very eastern: We're making great progress, but we should never be done." ○

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